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Government
Publication

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

ORGANIZATION

THURSDAY, NOVEMBER 26, 1987

The Committee on Finance and Economic Affairs held its first meeting on Thursday, November 26, 1987, at the Department of Finance, Ottawa, Ontario.

Members present were:

The Chairman, Mr. [Name], was elected to the position of Chairman of the Committee. He is a member of the House of Commons and is currently serving as Minister of Finance. The Vice-Chairman, Mr. [Name], was also elected. He is a member of the House of Commons and is currently serving as Minister of Industry.

The Committee will meet on a regular basis to discuss and report on the progress of the work of the Committee. The first meeting was held on Thursday, November 26, 1987, at the Department of Finance, Ottawa, Ontario.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitution:

Velshi, Murad (Don Mills L) for Mr. Kozyra

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, November 26, 1987

The committee met at 10:05 a.m. in room 228.

ORGANIZATION

Clerk of the Committee: We have a quorum.

Mr. Haggerty: I move that we nominate as chairman Mr. Cooke.

Clerk of the Committee: Are there any other nominations? I declare Mr. Cooke elected as chairman.

[Fault of sound system]

Mr. Chairman: Are there any other nominations? Not seeing any other nominations, I declare Mr. Ferraro elected.

[Fault of sound system]

Mr. Chairman: Next we have to entertain a motion to have committee meetings transcribed. The services are here and if that motion is carried--any questions? All in favour? Carried.

Mr. Haggerty moves the committee request a research officer from the library research office.

Motion agreed to.

Mr. Chairman: The research officer has in fact been working very hard over the last many months and has a lot of material available. Mr. McLellan, if you want to come up and have a seat, we will make constant use of you from here on in.

Let us talk for a few minutes about this committee, especially for the new members of the committee, so that you understand as well as possible some of the things this committee has been doing and some of the problems we are facing, one of which is a very immediate problem.

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The history of this committee is a short one. There was no finance committee in this Legislature until the spring of 1986. The predecessor to this committee was a select committee on economic affairs which was established in July 1985 with a mandate to look at the trade issue. The select committee had originally had a one-year mandate and extended that by about two months and did its final report in September 1986. I think you all have copies because I sent the new members copies of it in view of the fact that the trade debate is quite current. There was an original interim report that it prepared in September or October 1985.

That committee I think is very proud of the work it did. That work has been the basis of a lot of the trade debate that is ongoing now. I think I can

say on behalf of the members of all parties that it was a committee that worked very well together.

One of its recommendations was the recommendation that the finance committee continue to be involved in the ongoing concerns Ontario has with trade. I am not just thinking of the current free trade discussions but of trade elsewhere and trade with the United States on a long-term basis, because there is no question that no matter what happens with these negotiations, that trade will continue.

When this committee was set up, it was set up as a result of some lengthy concerns that predated my arrival in this assembly, and that was in 1985. I believe there had been some lengthy discussions in committee about the need for a finance committee. Those discussions culminated in Mr. Nixon's first budget in November 1985 with a document that some of you have copies of and those of us who were here before have seen, which was a document on the budgetary process. I commend that document to you if you can get a copy of it. Perhaps we can still get copies to members if anyone is interested. It looked at the problems that were occurring with the budgetary process and it recommended heartily that a finance committee be set up to look into that process.

When the finance committee was set up, it was given a very broad mandate. I do not know whether I have it in my documentation here. Yes, I do. Some material was sent to you earlier this week. It talks about the committee's responsibilities. This document is a little extended from the one we originally had.

I invite you to look specifically at the terms under standing order 90(e) which says it is "empowered to consider and report...on the fiscal and economic policies of the province." It is wording that is wider than the wording that establishes most committees, in my view, and it gives us a generic opportunity--the clerk can correct me if I am wrong--to look at specific problems of a fiscal and economic nature at will. We are subject of course to the constraints of being allowed to sit and we are subject to the constraints of budget, but initially we would seem to have a fairly wide opportunity to look at those problems and policies. I encourage members of the committee to be aware of that when looking at various issues that arise. I have a feeling that the Treasurer would encourage that as well. I have certainly never been given any reason to think otherwise.

Specifically, when the committee was established in the spring of 1986, it was given one area to look at which we did look at in some detail in 1986, that being the question of corporate concentration; I will get back to that in a moment. The second area we were asked to look at on a regular basis was the question of the budget and the need to have budgets on a fairly regular basis.

The thought process was to the effect that the federal government would bring down budgets essentially in the late winter, usually in the month of February. The provinces would respond to those budgets because of the intertwining nature of the two levels of government and we would bring down budgets in the spring, essentially in May. That schedule has been continued through 1986 and 1987. There was, in each of those years, a federal budget in February and a provincial budget, at least in Ontario, in May which in part responded to the federal budget.

What the Treasurer wants and what I think we, as legislators want, is to have some viable input into that budget. Historically, there has been a

presumption that budgets are, of necessity, somewhat secretive items, but I think there is a feeling at the present time that this has been overblown and that we should have more impact on budgets prior to their taking place. I think the government frankly benefits from that too because things can be run up flag poles, so to speak, to see whether anyone salutes them before they actually are entrenched in a budget statement.

Mr. Mackenzie: Flying balloons, too, sometimes.

Mr. Chairman: Flying balloons, yes. The process we experimented with last year was as follows, and the Treasury is prepared to do this again and is encouraging us to do it: The Treasury is preparing a report it will have ready for us in approximately two weeks. They are starting to call it the grey report just because of the cover. This is the one that came out last year. Our contact with the Treasury in this regard will be Dr. Bryne Purchase whom you will get to know well because I am sure you will wish to call him as a witness.

This document was a document we looked at very intently and we may wish to do so again. Sometimes we perhaps looked a little too intently, but we took this 89-page document, which basically tells--at one point in time, of course--what the state of the province's economy is. It does predictions on the future and it changes those predictions depending on what may or may not happen in the rest of Canada or in the United States. It gives some tables as to what would happen if we changed, say, the sales tax from seven per cent to six or eight. It is an extremely valuable document for us to start with as a working tool.

We spent a lot of time last time looking at the intricacies of what was meant by a particular statement or paragraph and I think members of the committee will agree with me that it was clear a year ago that we did not catch them out on anything. But that is part of our process, to try to make certain that the statements they make are accurate and are backed up with information.

We then had thorough--maybe I use that word advisedly--hearings in which various interest groups appeared before us and provided us with details as to what they thought should be in the budget. We finally prepared in April a prebudget budget consultation report which was tabled with the Legislature and, of course, given to the Treasurer and used by him in preparing the budget.

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This exercise permits a number of things to occur. It can permit those who want to air their views as to what should be in the budget to do so a little more publicly than just appearing directly before the Treasurer. It also permits the Legislature to have a view prior to the budget as to what should be in the budget and indeed it permits the opposition parties, if they so wish, to write dissents in this consultation report.

Dr. Purchase is prepared, in going over this document with us, to answer questions in three basic areas he thinks we will be concerned about. One is the free trade agreement and what impact it might have if it comes to fruition. One is the stock market crash and what impact he sees happening or the Treasury may predict will happen to ourselves. The third one is tax reform.

You will recall that the Treasurer spoke to us on November 18 in the Legislature and talked about this process in some detail and his expectations for this committee. You will recall as well that he talked about the fact that

tax reform has been proposed by Mr. Wilson in Ottawa and that he has made certain suggestions to us that we have to concern ourselves with whether we want to or not. In fact, the provincial government has been involved in discussing tax reform with the federal government now for about a year.

At first blush, the proposals are rather pleasant politically because it looks as if the federal government is offering to collect pretty well all our taxes for us. I hope this committee would be prepared to take a close look at that to see what it is we would be giving up and to see whether or not, frankly, we want to continue a tax-sharing arrangement with the federal government if it is the case that the federal government restricts us in our own fiscal decision-making. An example would be the fact that this government in Ontario has expressed concern about the capital gains tax changes that have been brought in by the federal government. We found we were unable, because of our collecting agreement, to reimpose that capital gains tax at the provincial level.

Another example is that a large number of people in Ontario, because of the difference in the scale of the tax rates, do not pay provincial income tax and do pay federal income tax and I think that figure is about 600,000 people. How are we going to continue to protect those people? Do we wish to continue to protect those people?

We have copies here of the Blenkarn commission report--

Clerk of the Committee: The recommendations only.

Mr. Chairman: Yes. The report itself is very thick. We have one copy of the report here. If the committee wants, we can get this report completely redone and given to you. What we have for you this morning is simply the recommendations. There has been some suggestion that those recommendations are the beginning of a watering down process that eventually occurs whenever tax reform is being discussed. Maybe we should be taking a more varied approach to tax reform. We may not be under the same restraints that the federal committee was or seemed to find itself under in accepting some of the basic premises of Wilson's tax reform. Frankly, the way he is talking about tax reform is not what I would have imagined he would talk about.

These are some of the things we have to do. I think there are a couple of things we should decide fairly soon, not necessarily this morning. One of them is whether in looking at tax reform, we want to do so in the same breath as looking at the budget. The Treasurer (Mr. R. F. Nixon) seems to have indicated in his statement to us on November 18 that he is going to have to deal with tax reform in his May budget, one way or another, so they seem to be kind of wrapped up together. We may find, because I am coming to the issue of our own time constraints, that time forces us to deal with the two matters at the same time, or you may, as a committee, want to look very specially at the whole issue of tax reform separately from the budget.

The other thing we want to decide--I have certainly heard already from some of you--to continue considering is the issue of trade and the trade agreement with the United States. The throne speech indicated to us that we are going to be given a resolution to debate following the release of the final text of the agreement, which I presume will occur in the next few weeks.

I am not of the view that we can do anything terribly meaningful before January 3, but we might want to make some plans as to how we want to deal with that resolution. It has been suggested that the last trip this committee took

to Washington was a valuable trip, more valuable than the first two the select committee took because we had some improvement in the organization of the trip, particularly by using a consultant in the United States as opposed to the Canadian embassy. We found we got around much better than we did with the Canadian embassy.

I do not mind saying this on the record: Right from the beginning, we have always got more information and more co-operation on this whole free trade debate from the United States than we ever did from Canada, including information as to what the Canadians were thinking or doing. That being said, the committee, when it went down in April, did do some lobbying. I do not think we changed anybody's mind in the Congress but we garnered a large amount of information that was useful to us here.

On the other hand, if there is a final documented agreement we are dealing with, I think it is debatable whether we would be accomplishing as much by going to the United States at this stage of the game as we were able to in the past. The first priority might be to take that document and explore the possible effects it will have on our various communities, our various sectors in Ontario. That would mean extensive hearings in the province, in Toronto and elsewhere, I suppose, to determine what it is we want to do in response to the agreement.

Those are some of the problems we have. Now I come to the immediate problem we have. This committee, being a new committee, was given the dregs in time during the sitting period of the Legislature. When the Legislature is not sitting, we have been treated very fairly, but when the Legislature is sitting, we have been allowed to sit only on Thursday morning.

1030

It became particularly chaotic when we were trying to put this document together last spring and basically prepare what was the beginning of a budget, having all three parties and 11 MPPs involved in something that had to be done in two hours on Thursday mornings. We started to sit at 9 o'clock Thursday mornings instead of 10 o'clock because that was the only thing, frankly, we were allowed to do. The decision as to when we can sit is not ours; it belongs to the Legislature and the decisions are in fact made by the House leaders and the whips.

The problem at that time came as much from my own party as any other, simply because at that time my party did not find it had the personnel to sit. It was overlapping with other committees. That problem may be resolved with regard to Liberals, but with regard to other parties I do not know.

I lobbied prior to today to have this changed. I was given to understand that the understanding was it was not going to be changed, although it would be changed. We were going to be given today only on the understanding that we would rise up in righteous indignation, a motion would be passed this morning saying it is absolutely impossible to continue this way and we would be directed to go back to the House leaders and demand more time. I might point out that this is something we have done in the past. Mr. Mackenzie recalls when myself and Mr. McFadden went marching into a House leaders' meeting demanding more time.

This time they are expecting it, as I understand it, and they will then agree or discuss--I thought it was "agree" a week ago and now I am hearing it is "discuss"--giving us Tuesday and Wednesday afternoons to sit. That, of

course, would have to be decided among the whips and/or House leaders, and then it would be passed as a resolution in the chamber.

My hope would be that we would decide that this morning, bring that to their attention--there is a House leaders' meeting going on right now--and if it can be worked into their agenda this morning, it could conceivably be passed in the chamber this afternoon.

Another problem that occurs with our sitting on Thursday mornings is that it is also private members' time which you will find is often the only time that us guys get to talk. In fact, Mr. Morin-Strom has a resolution on at 11 o'clock that I am sure he is anxious to get on with. I know other members of this committee want to be present for that debate and to speak to it. This is not the first time that sort of thing has occurred. As you can imagine, not only are we restrained to two hours but also they tend to be two hours when we have to be in two places at once. Even if we were not there to participate in the debate, we are usually called in before 12 o'clock for the vote. So it tends not to be the best time to be sitting. I think afternoon sessions are more fruitful. You get in to committee at about 3:30 after question period and then you can work right through to 6 o'clock.

My only experience, of course, was with this committee and the trade committee, but the trade committee got off to a good start in the summer of 1985 because it got going essentially during a break period and we had full-day discussions on topics that needed in-depth discussions, as opposed to 15 minutes per witness. Those discussions are much less satisfactory on Thursday mornings.

That is why I have asked to have this subject moved up to this point. I wanted members of the committee to realize that we have a great deal on our plate. We can put more on our plate as well if we want to. In fact, this document suggests we may have to deal with estimates and other matters referred to us by the House. Essentially, because we were so restrained, we have tended to send estimates back to the House when they send them to us, but we have dealt, I think, with--

Clerk of the Committee: Bills.

Mr. Chairman: We have dealt with bills. Do we ever do any estimates? I do not think we have.

Clerk of the Committee: We never did.

Mr. Chairman: We always just sent the estimates back.

We did deal with the Retail Sales Tax Act and Bill 115 on the Loan and Trust Corporations Act. Perhaps in fairness to my condemning our not having come to any conclusion on corporate concentration, some might argue that we did come to a conclusion by passing that act, but I do not think this committee ever grappled with the basic question as to whether or not corporate concentration, which in Canada we have rather endorsed compared to the United States--we do not have the antitrust legislation in place that it has. I do not think we ever grappled with whether we are happy with that and maybe we are not prepared to do so. The United States is not always the model we should be looking at, obviously. There are other countries in the world that are doing very well with a lot of corporate concentration. We have to consider that fact. That is another problem. I am getting off on a tangent.

What I am trying to get across, I guess, is that we do have a lot on our plate and it may be appropriate at this time to entertain a motion. I directed the clerk's attention to that fact and he has letters prepared for me to sign to take to the House leaders if it is the wish of the committee.

There is one other thing I should raise, though. The clerk wants to discuss whether I am correct under my mandate in saying that tax reform is something we should be discussing. He raised with me, and perhaps it should be placed on the record in fairness to him, that it may be the case that this is something that should be directed to us by the Legislative Assembly before we tackle it.

As I indicated, I tend to view the term "empowered to consider and report...on the fiscal and economic policies of the province" quite widely. In my view, there is no doubt that tax reform as it is being envisioned in Ottawa will have a direct effect on the province, but an argument could be made for saying we should not be looking at that unless we are so directed by the Legislative Assembly.

Is there any discussion?

Mr. Haggerty: On that point, in the comments of the Treasurer on June 22, did he not direct the committee to look at that?

Mr. Chairman: June 22?

Mr. Haggerty: "Also, I intend"--he is talking about the federal white paper on tax--"to refer the white paper to the standing committee on finance and economic affairs with the expectation that it will hold public hearings beginning early in September and report to the Legislature."

Mr. Chairman: Yes. On November 18, he made it quite clear that he is expecting our advice on it. I think the clerk is raising the topic as one that might be attacked procedurally but I frankly do not know who would be attacking it.

Mr. Morin-Strom: I do not see the relevance of something the Treasurer said on June 22, going into a new session.

Mr. Chairman: He also said it November 18.

Mr. Morin-Strom: I am looking at the statement he made last week, that this would be referred to this committee. He said "The standing committee on finance and economic affairs has not yet had an opportunity to review and offer advice on the white paper proposals." It certainly sounds as if he is expecting something from us in this Legislature.

Mr. Mackenzie: One of the things that is obvious, Mr. Chairman, is that if we begin to try to cover the items that are potentially ours, there is no way we are going to begin to be able to come up with a decent report on that wide a variety, rather than having it focus much more directly than we have been talking about or you have been discussing generally, not that all of these items are not important. Looking at those tax reform proposals, at budget papers and at the trade issue, in my opinion, is just beyond the capacity of the committee to do.

Certainly I have some difficulty, the same position your people have, with tying us up two or three days a week when the House is sitting. There is

are the difficulties of manning it with the amount of business that probably will be before the House. I think we have to focus much more narrowly on what we really want to take a look at. I do not think we can escape the trade issue at this point in time. I would prefer an afternoon, for example, rather than the Thursday mornings, but I am not sure I would support a recommendation for the two days in this particular committee.

1040

I would hope that one of the things we could take a look at very quickly is something the Attorney General (Mr. Scott) is looking at as well; that is, what area of responsibility specifically does Ontario have in terms of the trade deal we will be facing in its finality very shortly? It would seem to me that our research person should be talking to the Attorney General's office and taking a look specifically at those areas that are of provincial jurisdiction. What are the bottom-line issues? What are the areas Ontario has some responsibility for? Are those issues we can then be looking at the implications of and whether we can use them with any leverage? If we are not doing that, then I think we are playing games.

Mr. Chairman: Just on the point with regard to time, I was told by the two Liberals that the New Democratic Party members had been chosen with the fact in mind that they had Tuesday and Wednesday afternoons free. Is that not the case?

[Fault in sound system]

Mr. Chairman: I misunderstood.

Mr. Pelissero: Is there a restriction in terms of when subcommittees of a standing committee can or cannot meet?

Mr. Chairman: Formally, the subcommittee still has to get special permission to meet. No? Well, we tend to meet--I always thought we were meeting informally so as to avoid the rule. All right. I guess there is no restriction when subcommittees can meet.

Mr. Pelissero: That may solve some of the concerns Mr. Mackenzie raises if we wanted to set, say, Tuesday as the day. Then, depending on the agenda, as the agenda grows, we may either want to strike subcommittees for which we do not have to come back to the House leaders for additional approval, or if we find we want to sit as a committee of the whole, we can go back and ask for additional time rather than going in and saying two days and then having to back it up. That is just a thought.

Mr. Chairman: What do you mean by backing it up?

Mr. Pellissero: If you ask for two days and get it and then everybody (inaudible) off two days. As the issues start to build up, we may want to extend when we are sitting. Depending on the recess situation, certainly when the House is in session, we may want to look at it when we come back in January.

Mr. Chairman: I do not think we have any obligation. Once we get the permission, we can always decide we do not need to sit that day. On the other hand, I have always found it hard to get additional (inaudible). Maybe more work could be done through subcommittees That is an interesting point.

Another thing Mr. McLellan has raised that I should have mentioned--he was briefing me just last night on it--is that he has already commenced some work, and is a lawyer as well, working in research on the issue you raised, Mr. Mackenzie.

Mr. Neumann: I really do not quite understand the point Mr. Mackenzie is making. You raised three areas in which this committee should be involved: the free trade agreement and, generally, areas relating to trade; provincial tax reform and the implications of that at the federal and provincial level; and input in the budget process. It seems to me all of those are very important and are inter-related, so I am not sure I understand Mr. Mackenzie's point about becoming more focused. Does he mean simply that we focus exclusively on free trade? He did not clarify what he meant by becoming more focused.

With respect to the meeting times of the committee, would you clarify whether in asking for Tuesday and Wednesday afternoons, which I think is a good idea, that is to replace the Thursday morning or is it in addition to the Thursday morning?

Mr. Chairman: It would probably be in addition to the Thursday morning. My own opinion is that they would be more valuable. If I were to have to ask for any two out of the three, I would choose Tuesday and Wednesday afternoons, but that would be in addition to Thursday morning.

Mr. Neumann: I would not favour reducing our mandate if it means eliminating the work on preparing input for the budget process.

I think that is extremely important. It is a very positive step that the Treasurer has taken to open up that process. I am sure, looking at the implication of tax reform is part of that, because preparing a budget means the expenditure side and the revenue side and the revenue side has implications for taxation and for policy for the province. I do not see us cutting that out of our responsibility. I think we have to take it very seriously.

Mr. Chairman: Do you have any comment on that, Mr. Mackenzie?

Mr. Mackenzie: It does not change the--

Mr. Morin-Strom: I think one of the issues here is what kind of committee is this? In the Legislature there tends to be two types of committee. One is primarily to do estimates type of work and works while the House is sitting and meets quite extensively while the House is sitting, two, some of them three, sessions per week. However, they do not meet nearly so much during recesses.

Other committees are given special tasks and the best way to do those is not to meet while the House is sitting. They save those extensive sittings while we are on recess. We expect to be on extensive recess from January probably until at least March. Undoubtedly, we are going to have a very heavy load during that period. That is the time we are going to accomplish our goals. I do not see us accomplishing hardly anything between now and the end of December regardless of whether we are meeting once a week or twice a week.

In my view, we should focus our time on attacking some of these major issues in a focused, time-concentrated manner and hold day-long hearings day after day while we are on break. I do not see any need for us to meet more

than once a week before the end of December.

Mr. J. B. Nixon: I agree with Mr. Morin-Strom that the business of this committee should probably be focused and not a traditional estimates-type committee, but I think he is being overly optimistic when he suggests that the Legislature will finish in December and we will be available to begin meeting in January.

The government has a heavy agenda to deal with. I cannot speak for the House leaders or the Premier (Mr. Peterson), but I think they want to get through it. That means you will not be meeting free of the Legislature until some time in February perhaps or March. (Inaudible) to the conclusion that we are going to need some more committee time now in December and January.

Mr. Mackenzie: I would just like to know. The word in our caucus certainly is that we are out of here from the Christmas break until probably some time in March. It would be easier to talk about if we had some idea if what the member is saying is accurate.

Mr. Chairman: I don't know anything more than you do but (inaudible) on the legislative agenda, and then we are away.

Mr. McCague: I would like to bet with Mr. Morin-Strom however, maybe the chairman knows something. I think the point Mr. Mackenzie tried to make is a good point. What he is saying, I think, is that what we should do on free trade is determine from the Attorney General (Mr. Scott) those items on which we will have something to say as the Ontario Legislature and on which the Premier will have something to say in legal terms. That is what we should concentrate on.

However, there are three sitting days, and I thought Mr. Chairman, you made arguments based on the fact that Thursday morning is not a good time to sit, and instead of that we are sitting Tuesday and Wednesday afternoons. That is what I took from the arguments, but then you turned it to three sittings per week. I guess, if we are looking for a full-time job we can go back home and do that.

You have to realize the position that you put both opposition parties in if you try to do that. I think the point that Mr. Morin-Strom raises is a good one, that we should be asking for more time to sit when the House is not sitting and not expanding our time to sit when the House is in session because there just are not the hours.

1050

I am sure you have thought of it, but there are people here who are on other committees that are sitting exactly when you want to sit. The House leader I am sure drew that all up on the basis that so and so were available on certain days and the crossfire here I think is going to be devastating. I am sure Mr. Mackenzie and Mr. Morin-Strom have House duties--I know I do--and they are exactly the times you are talking about changing to. But my House times are now set to meet the meeting of this committee on Thursday mornings.

It is very difficult to shift that 16 and 19 members.

Mr. Chairman: I understand that. Would your views be any different if my arguments had been simply to change this to Tuesday and Wednesday? Are you suggesting that keeping Thursday morning is the straw that is breaking the

camel's back? Or is even Tuesday and Wednesday inappropriate?

Mr. McCague: In total? Two is certainly better than three and one is better than all.

Mr. Haggerty: I think the point we are missing with the chairman's comment is that he suggested that the workload is going to be very heavy and suggested it is a possibility that you may need two sittings a week. What the chairman has to do is go before the committee responsible for setting up the scheduling of the committee hearings and sessions here. He wanted to make sure that he had two days without having to go back every week saying we want to sit on Wednesday or Tuesday. I think Thursday is a reasonable day for the majority of us, but again, if we need that extra three hours or two hours of hearings that we have it without going back requesting further time and that this is what you want now. Am I correct on that?

Mr. Chairman: Yes.

Mr. Haggerty: It is not saying that you are going to use those two days, but it is just there in case you need it. We may be calling in witnesses from miles away and can maybe only make that one day, a Tuesday or a Wednesday. It could be Tuesday or Wednesday but one day will be Thursday for sure. Am I correct?

Mr. Chairman: Yes, that is correct. I think the opposition members have a point too in that when they agreed to free up that time in case we call committee meetings, they would be expected to have members who could attend. But that is my point. I find the rules very restrictive as a chairman. Unless you have that innate permission to call a meeting, you just cannot have a meeting. I see a federal committee that has two panels daily, at least as I understand it. We are not going to get to that stage, but we need a little more time.

Mr. Mackenzie: If it makes it any easier for you, I personally would just as soon keep the Thursday morning in terms of schedule and the House. Except for the private members' bills, it is probably the easiest time to work out and usually at least one member can cover if something happens. I would not object to the committee asking for one additional day. I would certainly object to asking for two additional days, although I maintain my position that I am not sure, between now and the end of this current period, that it is really necessary.

I think the key to it really is all of the items, as Mr. Neumann mentioned, are important but you are not going to get the kind of input or the kind of hearings to do the kind of work on those items while this House is sitting that is going to amount to a hill of beans or is going to have that much impression, as I think you probably know. That is the difficulty with charging in and asking for three days in the course of a week. I do not think it makes any sense.

The other thing is, and I am glad to hear we are doing it, that we had better be taking a look specifically at what areas we might be able to deal with and have some impact on.

Mr. Velshi: I think we are all agreed we have a heavy workload and if we at this point decide that we do not have the number of people available--and I appreciate the point there--and leave everything for next year, if something happens next year that we are unable to do these things,

there is no way of going back, and we may have to leave out some very major items to be discussed because of a shortage of time, I would rather spread it out evenly now in the hope that we get to more between now and next March than to leave everything for after New Year. I know what the problems are here and I think (inaudible) continue whether we like it or not. If we are going to have any meaningful input into anything this is what you are going to have to do is get down to it now. Perhaps two days a week may be the way to go.

Mr. Chairman: Mr. J. B. Nixon moves that this committee request the House leaders to consider an additional allocation of time for this committee to meet, that we remain with Thursday morning and an additional afternoon on Tuesday so that we have two days effectively.

Mr. Neumann: Or Wednesday, whichever one is most favourable.

Mr. Chairman: The motion is that we ask for one additional afternoon, Tuesday?

That was suggested. I think Mr. Nixon was simply saying Tuesday.

Mr. J. B. Nixon: Tuesday.

Mr. Chairman: Any discussion? We do not need seconders.

Mr. Haggerty: Just one point. I might suggest to you that it may be Tuesday that may not be a day that will accommodate the opposition parties because of the bills that usually go forward in the Legislature. Usually bills are on Tuesday. I wonder what your views are on that, George? Would that interfere too much?

Mr. McCague: I do not think so. I do not think it matters.

Mr. J. B. Nixon: Inaudible.

Mr. Mackenzie: If they should decide to add the additional day and they will take at what the scheduling is in any event and you will get word back as to whether or not it is a Tuesday or a Wednesday. I do not think you are necessarily restricting yourself by naming the day, although that is what they will look at first. My guess is it is going to be difficult to get the extra day, but you might.

Mr. Chairman: Mr. Neumann, did you have something to say on it?

Mr. Neumann: No.

Mr. Chairman: Anyone else wish to say anything on this? If you read back the motion.

Clerk of the Committee: From what I gather, this committee requests for the House to consider giving the committee an additional day on Tuesday, but I understand, and I will repeat it, Tuesday or Wednesday or just Tuesday?

Mr. Pelissero: Tuesday.

Clerk of the Committee: Just Tuesday. OK.

Mr. Chairman: Tuesday, subject to the House leaders' direction--

Interjections.

Mr. Chairman: That is right. Any other discussion? Are you ready for the vote? All in favour? Opposed?

Motion agreed to.

Mr. McCague: The other thing I don't think we should lose sight of is that if at the next meeting we could take a little time to determine what the workload is, we should not lose sight of the fact that there may be a two-month break and that we should have more time than is normal to sit during that break and that can be effectively five days a week. I think we should keep that mind that there would be at least some additional time later to get through your workload.

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Mr. Chairman: I think that is a good point. Obviously we will need that time during a break that is of any size, and there comes the issue too of whether or not we would want time to travel and if so, would we want time to travel out of the province and those things and very soon we need to prepare a budget.

Next week perhaps we could look at a budget and we have to take those things into consideration at that time.

Interjection.

Mr. Chairman: I will raise that in a minute, but first of all I think we need to deal with a subcommittee, whether or not we want to have a subcommittee. They have been of some use in the past. That is basically a committee with one member from each party. They have been of real value I think in attempting to schedule matters and attempting to agree on witnesses that we would wish to hear on certain topics. They tend to be quite informal brain-storming sessions. As you can imagine on an issue like trade, there are different points of view, different contacts coming from different parties. They can be valuable. I do not know that we have any need right now to have one meeting.

Interjection.

Mr. McCague: Harry was a little bit confused as to what a subcommittee does and I am probably confused too. Do the small ones not meet other than to do minor matters?

Interjections.

Mr. Chairman: They have to report back to the committee. They have never made any decisions, they have never held any hearings. They have done housekeeping work to save the time of the committee. Often some of that housekeeping gets rehashed on the record in committee too, but I try to avoid that if I can.

I do not know that we have any need for a meeting now. It was put on the agenda at the suggestion of the clerk--I think it was a good suggestion--just so you can be aware that this route has been used to--

Mr. Mackenzie: To help develop (inaudible) arranging and scheduling.

Each party has a subcommittee for arranging a scheduling matter.

Mr. Haggerty: I was just looking at the other business.

Mr. Chairman: Do you have other business?

Mr. Haggerty: I was just thinking. I noticed in the last four or five years in the committees that the workload is getting pretty hectic and the paperwork that is involved with that, to be picking up and travelling back and forth from one office to another office. Is there any possibility that we can have a bookcase or something that is here just for this committee alone? In case we happen to forget something, we can always go back and pull it out of there.

Clerk of the Committee: It is possible if we use the same committee room. We could endeavour to put together a couple of binders.

Mr. Haggerty: But that gets pretty hefty, to carry to the Legislature and back.

Clerk of the Committee: We could keep the binders whenever we are in the committee, wherever it is.

Mr. Haggerty: I just thought if there was a bookcase there under lock and key or just when we met. There is no reason why this committee cannot have one. We have the standing committee on administration of justice where it always sits in the committee room that has television. I do not think there is any fighting for that. What I am saying is that if we are going to have committees set up in the Legislature, we should all be treated alike. I think we should have a particular room so that we know this is going to be it. If we are going to have to have two days here and we are going to have to know exactly where we are going to be sitting, because if we are going to have witnesses coming in and trying to find the room or something--

Mr. Chairman: I think the problem is the fact that the committee rooms move around. Sometime if we get exciting, we may have the Amethyst Room too. I think that is decided on the basis of what somebody decides is the issue of the week.

That is not a bad idea to have a travelling library book.

Mr. Haggerty: I am just saying we should have a place when we are here where we can leave some of the literature and pick it up when we need it.

Mr. Chairman: Perhaps we can look into it.

Mr. Haggerty: Half the time when we take it back to our offices we will lose it.

Talking about television, it seems that if you want to get on television you have to be on the justice justice. They are on the tube all the time.

Mr. Chairman: I learned late in the season last year that if you try to pull certain strings, if you know there is going to be an interesting topic, say Donald Macdonald coming to talk to us about free trade, we let the clerk's office know and maybe do a little lobbying to get the meeting into room 151. I did not realize that for a long time, but we will do that more often. I did not think it was appropriate or necessary this morning.

The only other thing I want to raise is next week's agenda. What does anyone wish was on next week's agenda? Would you like to have a witness from the Attorney General's office?

Mr. Neumann: I thought we were going to wait until after the text of the agreement.

Mr. Chairman: I think the fair view is that we have a right to look at trade when we want to look at trade, and in fact we have in the past, in the last parliament we exercised that right, perhaps over the wishes of some members of the executive committee. We could certainly do that if the committee wants to. I think from the throne speech I read that we will be given a specific resolution after there is a final text and we will be asked to discuss that resolution. But we can certainly look at the issue before that if we wish.

Mr. Pelissero: If you need a motion, representing probably the grape and the wine industry in terms of my riding, I am very interested. I am not interested in waiting until the ink is dry on the final text before we have some discussion about provincial jurisdiction. The question is, does it take an individual, a group of individuals or something in writing? Probably a combination of both. That is something the committee could take, as well as having someone here to give us some advice.

Mr. Mackenzie: Our researchers can do some work on their own on the issue as well. I am just a little bit afraid that we may get told the Attorney General has not as yet had the report that he has been asked for on it. We may get an answer that it is still in the works.

Mr. Chairman: I think I am hearing a consensus here that we want to look at this issue and that surely there is some activity going on right now based on the elements of an agreement. As a lawyer, I know it is hard to try to pin down exactly what that document means. They are going to have to explain that to us, I guess. They must be doing some work on it.

Mr. Pelissero: I am not a lawyer, but from a legal perspective, certainly there was discussion that the original direction for the draft agreement was 50 per cent North American content. If at some point in time we drew a supposition that it comes out 60 per cent North American content, to me that raises the draft agreement or the understanding.

Do we have any kind of a legal case from that point of view in terms of saying it is substantially different? Even if it is not substantially different from the draft agreement, what are our options as well in terms of the federal government's perspective, even though it has agreed to it in terms of saying it is going to go forward?

It is more than taking the 35 pages and putting it in legal terms, it becomes another negotiating round. If they could do it for the auto pact or the auto industry--again, I will come back to my constituents--why not with respect to the transition period for the wine industry?

We will have to look into that too. Off the top of my head, I think it is an issue that would only deal with American law as opposed to our law. Maybe somebody can find something I am not aware of.

Mr. J. B. Nixon: I am all in favour of taking a look at the free trade deal, as my friend Mr. Mackenzie would say; the specific areas of provincial jurisdiction which we may decide to implement or not. I think there is an equally important subject which has not been discussed in this Legislature or in any committee of this Legislature, and that is tax reform.

We have got the white paper and I think we should be looking at it. I think this is the appropriate committee. My concern is that by making a decision now to look specifically at free trade, we may be setting the agenda for the committee until next spring. With this free trade being the subject it is, it could sink us into that swamp for that long. Perhaps we should be setting some priorities.

Mr. Chairman: The clerk has just whispered to me that any time any committee has ever asked for a constitutional opinion from the Attorney General it has not been successful in getting one. They make the statement when they are ready. In any event, maybe we can make a valiant attempt to get one, either from them or from Consumer and Commercial Relations, which is doing some work in those areas, on a number of laws that might be impacted by this agreement. The Treasury is working on it too.

Mr. Pelissero: Within our budget, we have the money for going outside for legal advice. If they are not prepared to give us it, I am sure we could find someone who would be prepared to give us some kind of interpretation and advice on the subject. I will leave it at that.

Mr. Chairman: We do not have a budget yet and I do not know whether we could do that by next Thursday.

Mr. Mackenzie: I think our researcher would put a lot of questions to the Attorney General if there was a witness here from his department, but certainly, a researcher as well can take a look into law or cases that have already been established. I understand there are some where the argument of provincial right and jurisdiction has been upheld against a federal move.

Mr. Haggerty: We have got a copy of the labour convention case here. I just want to suggest one thing, that we may not get the information we are looking for, perhaps, from the Attorney General's office. We may. Let us take a look at the academic field there. There is some expertise in that area on constitutional law. I think I have read some comments--

Mr. Chairman: It might be cheaper than lawyers, too.

Mr. Haggerty: I just want to suggest (inaudible) committee to make representation here and to put their views out there, and we may be able to get it from the academic view. The area of Mr. Nixon's comments was on free trade, and I think if you look at the white paper from Ottawa, there are tax changes proposed in the industrial-commercial area that I think you can tie in. It is wide open.

Mr. Chairman: I am seeking an early adjournment. The chair has gathered a consensus that that is the topic we want to discuss next Thursday morning. We will presume we will not have Tuesday afternoon as we adjourn. We will certainly let you know if we get it. We will meet next Thursday morning. The issue will be the constitutionality of the free trade agreement and I invite continued discussion with myself as to who we could have come. In the meantime, if we leave it up to the chair, I will make sure it is someone interesting.

Before we adjourn, I want to introduce Brian O'Riordan, who is an assistant to Mr. Nixon. He will be available to this committee and is obviously also a communicant both ways in so far as what we are doing.

The committee adjourned at 11:15 a.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS
ORGANIZATION

THURSDAY, DECEMBER 3, 1987



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitution:

Dietsch, Michael M. (St. Catharines-Brock L) for Mr. Haggerty

Clerk: Carrozza, Franco

Clerk pro tem: Decker, Todd

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Anderson, Anne, Research Officer, Legislative Research Service

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, December 3, 1987

The committee met at 10:06 a.m. in committee room 1.

ORGANIZATION

Mr. Chairman: I see a quorum. Members of the committee, when we met last there was an instruction to the chair to prepare for witnesses to attend as early as possible to discuss the issue of the constitutional relationship of the free trade agreement vis-à-vis the federal government and the provinces.

As you might expect, a number of the people we would expect to be witnesses are a little gun-shy right now because of the fluid situation. We have talked to--how many people?

Mr. McLellan: About a dozen in Toronto and outside Toronto.

Mr. Chairman: We have talked to at least a dozen major constitutional experts and lawyers, all of whom beg a little more time. However, we did get Dr. Peter Russell of the University of Toronto department of political science.

Mr. Dietsch, if you would take a chair along one of the sides; it does not matter where; that is more appropriate for committee members.

He will appear before the committee after routine proceedings on Tuesday, December 8. I am presuming that our request to sit for that time period will be accepted by the House leaders today. If it is not, then of course we will have to reschedule that. He has agreed to appear at that time. That could be, from what I read, a very opportune time to question him, although it may not have been an opportune time for him to have digested what might be the final document, which I have heard by the grapevine might be released as early as Monday, December 7.

We are still in the process of talking to other experts, both in political science and law and we have also, at the request of the committee, requested the Ministry of the Attorney General to provide us with an opinion. They had, as is their norm, written a reply to me indicating that if the committee wants legal advice we should seek outside counsel. It is the case, however, that I am aware there is work being done on this in the Ministry of the Attorney General. If that work were to be released by the Attorney General (Mr. Scott), I think it would be appropriate at that time to call the Attorney General or someone from his ministry to discuss it with us.

The result of this is that today there is material available in front of you which will perhaps be of some assistance in questioning Dr. Russell on Tuesday. Other than that, there are a number of housekeeping matters I want to cover today.

Mr. Mackenzie: Mr. Chairman, are you saying that even though they are working on it, the Attorney General's department would not sit down with us, even in terms of an outline of the areas that might be under provincial jurisdiction? The motion last time was relatively simple, that we start out by

having outlined for us those areas the province would have some input into. I find it difficult to think that people waiting for the final text are waiting for the final text outside and that there is not some expertise that could outline those areas that would have a provincial component.

I find it even more difficult that the Attorney General's department could not at least do a summary of the areas he is taking a look at. I do not think we were necessarily asking--that is a later step--what the procedures might be. We can guess at some of them, but as sure as blazes it would be useful to have a summary of those areas the province does have some jurisdiction in.

Mr. Chairman: Mr. Mackenzie, you may recall that when we discussed this last week, the clerk immediately brought it to our attention that the Ministry of the Attorney General--not just with this Attorney General--as a matter of procedure over the course of a number of years has a strict policy that it does not respond to committee requests for legal advice. We asked for it and we got that reply. In discussion with the Attorney General, though, I indicated to him that if an opinion is tabled in some respect in the Legislature or made available to the public, it would be appropriate then to ask him to come and comment on that document. That document, to my knowledge, does not exist yet but I understand there is work being done on it.

Mr. Mackenzie: In previous committees over a good number of years, I am sure we have also had the Attorney General's department give us an outline and answers to questions. It is not even necessarily a legal opinion. Whether it was taken as a very narrow question, wanting a legal opinion, or whether it was taken as this committee which is charged with looking at financial matters and with the free trade issue, if it cannot call upon and has to go outside the Attorney General's department to get something as relatively straightforward as a list of those areas that could fall specifically under provincial jurisdiction is a bit of a copout. I cannot understand the response to that from the Attorney General's department.

Mr. Ferraro: Perhaps I could interject. I do not want to comment on the substance that has just been discussed, save and except--I guess the question I want to ask is, if we read today that the tentative agreement in effect is being substantially changed, and I realize the timespan--we will probably get the damned thing two weeks before Mulroney signs it. I am wondering, would it not to some degree be a waste of time and effort to ask for a legal opinion, not knowing which areas that legal expert could deal with?

Mr. Chairman: As I indicated when I started the discussion, that was the reaction we were getting from a number of people we talked to. I can understand their professional concern with such an amorphous situation. You have to pick up the Globe and Mail each morning to decide what it is they are talking about. I am somewhat surprised that Dr. Russell has agreed to appear at a particular time in view of the deadline I am hearing now. He has agreed to come and talk to us on Tuesday afternoon. I have read some reports that December 7 might be a date we may see a text.

Mr. McLellan has referred me to his report to us which is in front of us, page 5. "According to the ministry, their analysis of the legal text will be available approximately three weeks following receipt of the legal text. The court will consider the general constitutional impact; the relationship to existing provincial programs and legislation; the consequences for

federal-provincial relations (formal and informal aspects of co-operative federalism); and interlocking legislation (federal-provincial).

That would seem to be their view. I would think three weeks is not an inappropriate period of time to conjure up all the concerns that might exist as a result of a very complicated agreement.

Mr. Villeneuve: I think the Attorney General could probably outline for us those areas that possibly should come under a free trade agreement, and also the General Agreement on Tariffs and Trade. I think they go hand in hand. I know I have some problems in trying to differentiate. Is it a free trade problem? Is it under GATT jurisdiction? Is it something else? I wonder if we could have some direction from the Attorney General's ministry as to what areas under both free trade and GATT would be provincial jurisdiction and what the alternatives are of the Ontario government.

Mr. Chairman: All right. They are two different problems, of course. They might be prepared to talk about GATT now because at least the rules are set there, but we still have their prevailing view that when you need a lawyer, a committee should hire a lawyer. I do not know whether we want to challenge that or not.

Mr. Villeneuve: I think under free trade, under GATT and a number of other jurisdictions--we have softwood lumber that may have its countervailing duties removed in the not too distant future. I know the province of Ontario did not have a great deal to do with the 15 per cent that came in. It seemed to be somewhat agreeable in part. It was difficult to know. The removal of this 15 per cent is a pretty important economic factor to certain areas of Ontario, .

Likewise in the red meat industry, there is the \$10 surcharge on Canadian hogs going south of the border. When might we be able to expect a removal of that? Those are dollars directly in producers' pockets. It would be interesting to find out just where the government of Ontario stands vis-à-vis these specific problems.

Mr. Chairman: I do not think you are getting anything from the Attorney General on that, are you? In fact, the softwood solution, which I think was opposed by this government, is entrenched in the draft agreement, is it not?

Mr. Villeneuve: They are talking of removing it in the very near future.

Mr. Ferraro: With respect to the committee, on this issue let me give my own personal viewpoint. I draw the committee's attention to the report released by the government and Blake, Cassels and Graydon vis-à-vis the dispute settlement mechanism, for example. Two weeks later, of course, what happened is the Business Council on National Issues comes out with another reputable law firm's viewpoint that is diametrically opposed to the issues as perceived by Blake, Cassels.

Mr. Chairman: Both Canadian firms interpreting American law.

Mr. Ferraro: Both Canadian firms and as far as I know, not politically affiliated with any particular party. Noble, I say that with great sincerity.

Having said that, I seriously have questioned the necessity, if you will, of having a committee lawyer deal on that issue for these reasons. Once the final text is available, I can assure you both the Attorney General's office and various industries will have their own legal departments working on it to some degree and I am sure will be at the committee's disposal. I seriously question the logic of spending money on a lawyer for the committee from the standpoint that I would be willing to venture that if everybody on this committee chose a law firm, we would probably get somewhat different views.

If, for example, after the facts are substantiated or presented based on those ministries, whether it is the Ministry of the Attorney General or the Ministry of Industry, Trade and Technology, and the legal viewpoints therein do not satisfy us, then I would be perfectly willing to say on my part, "It is hogwash; let us get our own legal opinion." But I quite frankly think it is a waste of money at this point.

Mr. Chairman: I do not know whether anyone is suggesting we hire a lawyer. I am simply saying the Attorney General suggested that.

Mr. Mackenzie: I was not suggesting that either. Forgive me if I am being oversimplistic, but the purpose of my comments at the last meeting was to at least have this committee with an outline of those areas where it was at least perceived that the province had some specific jurisdiction, because we are now being told in effect that only where we have this jurisdiction do we have any say. Of course, that is being challenged by the feds as to what authority we have.

That does not necessarily, I do not think, need the legal interpretations yet. As a matter of fact, whether or not we wanted an outside lawyer or somebody else to give us an opinion, I think it would be much easier to decide if we had some clear listing--maybe our researcher can get it for us; I do not know--of those areas where we think there is provincial jurisdiction. That is what I was asking for.

If that was not communicated to the Attorney General, I guess we did not get the straight answer. I think his answer back, first, that they are not going to be here, and second, we should hire our own lawyer, is a bloody copout. I just cannot understand it. It was not a difficult legal decision I was asking for. I was asking for the framework or the areas where there may be some provincial say in this final deal. I think that is a very legitimate question and I am literally appalled at the answer we got.

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Mr. Ferraro: Could we get something from the Ministry of Intergovernmental Affairs or even the Ministry of Industry, Trade and Technology to outline to some degree the points being expressed by Mr. Mackenzie?

Mr. Chairman: I know there is work going on in several ministries as to dealing with what particular aspects of the agreement may affect the province. Obviously, that has been done just in preparation for policy.

Mr. Mackenzie: I do not want to interrupt, but I think I even mentioned that last week, that the Premier (Mr. Peterson) himself had said a couple of times in an aside and in his answers to questions that the Attorney General was--they were waiting for him or for some information from him--I

forget the exact words; I would have to look it up--in terms of those areas that were provincial jurisdiction. I was not asking for legal--I know the lawyers are going to fight over that. I would like to know specifically the areas that are seen as provincial jurisdiction. I think that is one of the ways we are probably going to have to tackle it if this committee is going to have any input at all into the issue.

Mr. Chairman: Maybe we are putting the cart before the horse here. We are going to have these opinions. We are going to have Professor Russell next week. We are going to have a number of other experts who can give us fairly definitive statements as to where our concerns will lie. I do not want to intrude on the debate, but the chair understands the concerns that the Attorney General's office would have since it may well be the very office that is eventually arguing this point in the Supreme Court. To start with, they might make some offhand comments that will come back and haunt them at a time when the province does not want them to come back and haunt them.

Mr. Neumann: That was the point I was going to make. We heard the Prime Minister, following the first ministers' conference, make a statement with some confidence--whether he was bluffing or not, we do not know--saying that regardless of what areas provinces think they have jurisdiction in, the federal government has the right to negotiate treaties and implement them and he was confident it would be upheld in law. So I do not think you will find the Prime Minister having his legal advisers appearing before a federal committee and exposing their legal strategy to all and sundry.

I do not think we should take that risk as well. I think it is unrealistic to expect that if the Premier is awaiting the Attorney General's advice, that we are going to get it before the Premier does, that we are going to get advice that may jeopardize a court challenge at some point in the future by exposing a legal strategy prematurely.

I think our best route is to call in the experts. We would be better advised to look at the substance of the agreement and its impact on Ontario and its future and to do what is more properly in the jurisdiction of this committee, which is to determine what is an appropriate trade policy for this province within the Canadian context, both in its relations with GATT and in relations with the United States.

Mr. Chairman: Are there any other views? Then the chair will assume that we can go ahead and continue with Mr. Russell on Tuesday. We are assuming, do not forget, that the House leaders will permit us to sit on Tuesday after the deliberations today.

Mr. Mackenzie: If that is the case, can we also then ask our research person to prepare a relatively straightforward list of those areas that he may presume from his research are potentially provincial responsibilities, because I think that some of the questions that have to be directed will deal with those specific issues. Otherwise, I am really wondering if anybody thinks we are going to do anything in this committee in this particular area.

Mr. Chairman: Mr. McLellan has prepared a memorandum to the committee. Perhaps he could go through that. In addition to that, it may be the case that the committee would want a legal overview to assist us in questioning Dr. Russell.

Mr. McLellan: Very briefly, my background is political science; it is not law. As the chairman has said, I have spoken with approximately 12 people from Osgoode and from the University of Toronto law school trying to line them up, as well as Queen's University. As he said, there was a reluctance from the academic community to come at such short notice. They feel they need more time really to look at the legal text, and I think I have probably outlined that in my introductory comments.

On page 5 they say, "It is essential to study the final legal text on a sector-by-sector basis and then apply this analysis to the division of legislative authority." Again on page 5 they say, "It is very difficult to anticipate what the Supreme Court's decision would be on the free trade agreement."

What I have attempted to do on pages 5, 6, 7 and 8, and as well on the attached C. D. Howe Institute commentary, is to try to outline what appear to be conflicting interpretations and understandings as to what powers the provincial government would have against the federal government in the area of treaty making. Certainly on the bottom of page 6 we have a conclusion. I will just read through perhaps one or two of the conclusions. What it does, in my mind, is to confirm Professor Russell's concern at the University of Toronto that when the case ultimately gets to the Supreme Court, if in fact that is the ultimate outcome, it is very difficult to anticipate what the ruling might be.

I should just go back one minute. One of the key experts in this area is Professor Hogg, who is a constitutional lawyer at Osgoode Hall Law School. He would probably have been the prime person to have come to speak with us, but unfortunately he has been retained and has been doing work for the federal government, the Attorney General's department. I spoke with them to try to get some further information and suggested that perhaps we could contact Professor Hogg. As I say, the results were not particularly fruitful in that area.

On the bottom of page 6, it goes on to say:

"A growing constitutional appreciation by our courts of policy considerations favouring central authority and control in regulatory matters affecting international trade is noteworthy. At the same time, provincial governments will retain key roles, given the constitutionally protected jurisdiction they continue to enjoy. Clearly, the constitutional paradigm I have attempted to explain does not lend itself to statements in absolutes.

"In the event of jurisdictional conflict, predicting which direction the balance of power tips under the Constitution with respect to subject matter affecting international trade remains something of a legal art. This leaves much to the imagination of lawyers; perhaps more, I have attempted to suggest, than there was before."

Throughout all of these discussions and summaries and the various legal texts, they emphasize the importance of trying to come to grips with the division of power. They emphasize the importance of exclusive spheres. They stress the overriding need for what they define as co-operative federalism and the significance of long-term federal-provincial relations in this area. I think that is perhaps one of the apprehensions that the provinces have.

On page 7 it says:

"Finally, the provision should be upheld under the ancillary powers doctrine because it is part of a scheme designed to implement a treaty respecting international trade. International trade on the whole is a federal matter and the provision in question is an essential feature of the implementing scheme.

"If the analysis offered in this paper," which is that a free trade agreement would go ahead, "is correct, it does not prove that Parliament has complete jurisdiction to implement free trade. It suggests rather that the Supreme Court of Canada has the tools it needs to uphold a strong federal initiative in the area within the existing framework of Canadian constitutional law. Whether the court has the will or desire to use those tools in the manner suggested is a distinct question and one which depends ultimately on the political vision and values of the decision-makers."

I think last time we had talked about the Labour Conventions case, and on the bottom of page 8, Professor Szablowski, who is a lawyer as well as a political scientist teaching at York University, refers to a second conclusion drawn from the Labour Conventions case. He says, "legislative jurisdiction to perform (implement) treaties and international agreements is divided between Ottawa and the provinces according to the scheme of distribution embodied in sections 91 and 92 of the Constitution Act, 1867."

A bit above that, in the third paragraph of that summary on provincial treaty making, it says:

"The argument for provincial treaty making power is far from conclusive, and it has never commanded wide acceptance in Canada. Certainly, it has never been accepted by the federal government."

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It goes on to talk about Quebec's initiatives during the 1960s and saying it was pre-empted by the federal government. Then it says:

"By such techniques, the federal government has managed to satisfy legitimate provincial interests while remaining firm in its insistence that international affairs are an exclusive federal preserve." That is on page 8 at the end of the fourth paragraph in that summary.

The C. D. Howe Institute back in 1986, if we turn from page 8 on to the appendix material, prepared an article, "Closing a Trade Deal: the Provinces' Role," and they discuss at the top: "Summary: Major issues in the Canadian-US and multilateral trade negotiations are within the exclusive legislative jurisdiction of the provinces. These areas include," and they go on to talk about three, including regulation of natural resources and trade in services.

Mr. Mackenzie: Where are you reading now?

Mr. McLellan: In the appendix material, Mr. Mackenzie.

Mr. Chairman: It is entitled "Closing a Trade Deal: the Provinces' Role."

Mr. McLellan: It is a C. D. Howe article. At the top they start off with a summary, but I think the interesting part of this C. D. Howe article is on page 2. Over in the right-hand column I have underlined where it says, "The Constitution and International Trade," if I could just wade through this:

"Canada's Constitution gives the federal government exclusive authority to negotiate international agreements but not the power to implement agreements in areas of exclusive provincial jurisdiction." Then a bit further down: "The Constitution also prohibits provincial tariffs and tax policies that act as barriers to interprovincial trade in goods. Nevertheless, many such barriers have been erected, including preferential procurement practices, agricultural marketing boards, and regulations governing the distribution of alcoholic beverages and the export of resource products. While there are no constitutional constraints on procurement preferences, concurrent federal legislation supports most provincial policies restricting interprovincial trade."

I think what these three or four references do is to point to what Professor Russell said to me in our conversation of last Thursday as soon as I left this meeting, and that is that he is very concerned about what the ultimate decision of the Supreme Court might be and, in his opinion, he does not have a clear understanding or direction as to what might happen. So I think what this very brief outline does is to say that we have a reasonably clear idea of what provincial jurisdiction we have, but if the situation ultimately ends in the Supreme Court trying to decide what the ultimate outcome would be, in Russell's opinion, it is very grey. He does not know.

In speaking with the associate dean at Osgoode, I think most lawyers I spoke with were very apprehensive. They said it is an area that is not dealt with on a frequent basis in constitutional law classes. Many said to me, "If you want me to respond to it," for example, Professor Simeon said: "I will do it in the new year. I do not have the time to do it right now." Quite honestly, I think in trying to get academics to come within a five-day period, they have other commitments and responsibilities, and as much as we kind of probed them to come along and to address it, it is very difficult to do that. They do need preparation time and I think there is, as the chairman pointed out, a great deal of reluctance for them to respond in such a controversial area on short notice. I think that is an honest answer to the difficulty.

Mr. Mackenzie: I accept that. What I would like to ask you further, then, is that we know the wine area, we know the services area could be, but is it possible to come up with those areas that are likely to involve themselves in this kind of obviously legal battle that we may have down the road?

Mr. McLellan: In speaking to the chairman, I believe that the Department of Corporate and Consumer Affairs is going ahead and preparing a detailed list of provincial legislation that possibly could be impacted by such a free trade agreement. In other words, these studies are going on in various ministries, and one of the difficulties the research department has is that a lot of this information, until such time as it is published, stays within the ministries. So to get some of this information--basically, when you request it, it is not always forthcoming.

Mr. Mackenzie: That raises, then, the question I have raised before, and that is, what tools is this committee going to be given? I think this information is vital. It may be used by the lawyers in terms of whether or not there are any challenges, but are we just sitting here as an adjunct to the whole operation or are we going to be able to get access to this, as well as the cabinet or whoever will make the decisions within the ministry?

Mr. Chairman: It is the chair's view that we will have no trouble getting access to it. It is also my view that we need to start with an

overview. In fact, I was discussing with the researcher calling some of the people who are working on this in the various ministries when it is appropriate.

Mr. Mackenzie: It also opens up another avenue that is very obvious but, of course, it also depends on whether there is really a commitment that the deal is not good enough and whether people are serious about that, which you and I have crossed swords on occasionally but which I have some doubts about. But it seems to me that if some of the leading legal lights are telling us that there are serious questions and these are going to have to be resolved down the road, probably in the courts, that kind of information would probably not be appreciated too much if it were widely disseminated to some of the Americans. It might affect to some extent their action when they take a look at the agreement after it is signed and presented to them. There is a time frame, then, that could be a long one.

Mr. Neumann: I found that report quite interesting. It seems to me that there are two distinct areas where we can look at provincial rights. The one is: Do provinces have the right to enter into treaties on their own in areas of their exclusive provincial jurisdiction? On the basis of the Quebec experience, it seems to me the provinces have a weaker stand there than in the other area that you mentioned: Can the federal government enter into a binding treaty which affects areas of exclusive provincial jurisdiction? I think probably, logically, we would have a stronger area to defend provincial jurisdiction in the latter than in the former.

Looking at the C. D. Howe report on page 8, examining a number of possibilities--and of course, this was written in 1986, looking ahead at what might happen; and it is quite interesting reading--it says:

"A fourth possibility is to create a series of federal-provincial agreements to implement commitments made at the bargaining table. By mid-1986, a harmonious approach had been established to involve the provinces in the negotiations. It is to be hoped that this involvement will contribute to a final, negotiated package that includes acceptable combinations of gains and concessions, and that it will lead to the provinces implementing those aspects under their jurisdiction. Past experience suggests that legal commitments by the provinces to implement what has been negotiated will be desirable before the Prime Minister signs a final agreement. These commitments would involve each province deciding whether to opt in or out of aspects of the final agreement that touch on provincial jurisdiction before the federal government formally ratifies the agreement."

It seems to me when you look at what was being written back in 1986, we have come a long way away from that harmonious approach. Looking over at the next page:

"Each of the four possible approaches has weaknesses and the options are not necessarily mutually exclusive." Here we are touching on what has actually happened. "The go-it-alone approach," which is what the federal government has done, "has the advantage of simplifying the formulation of the federal government's negotiating strategy. But a unilateral strategy would impair Canada's ability to obtain key negotiating objectives, erode the credibility of the federal negotiating team, and risk subsequent legal challenges by the provinces."

"The consensus approach could avoid these strains, but since it would require provincial unanimity on all issues subject to provincial jurisdiction,

the risk is great that it would create uncertainly in, or even paralyze, Canadian efforts in the negotiations."

It seems to me that we have come a long way from the harmonious approach. The federal government seems intent on steamrolling the treaty with very, very little time for the provincial areas to review how their areas of jurisdiction have been affected.

Mr. Mackenzie: The answers are that we have not been involved in any of the direct negotiations at all in the process. It raises once again the question we have been asking: Where are we going with this?

Mr. Chairman: There are two or three other matters I do want to get to this morning. If there is anyone who has not spoken now--

Mr. Ferraro: I apologize. I appear to be monopolizing the discussion.

Mr. Chairman: No, you are not.

Mr. Ferraro: I think Mr. Mackenzie's question has been addressed by you but, if I may be so bold as to say so, I am not sure that for the committee's purposes we have dealt with it to the extent that perhaps most committee members would feel comfortable.

Your question was right. We want access to the information, and the question is when. It is my understanding, and I believe that most members of the committee would understand, that we will get it subsequent to the government getting it and each ministry providing it to the government--within a matter of hours, I am sure. The Premier (Mr. Peterson) all along and all the ministers have said that once it is available to the government and cabinet as a whole, it is my understanding that they will be released to the committees as quickly as possible.

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If you are asking for access to whatever while the negotiations are going on or while their studies are being compiled, I just do not think that is appropriate, quite frankly. Being realistic--Mr. McCague may or may not agree with me--that is not the way the system works, according to my understanding, and I think there are some good reasons why it does not.

So the only alternative we have is to get the information as quickly as possible subsequent to the government's release or, on the contrary, to get an overview and get opinions based on areas that we know we can deal with, such as services and/or winemaking.

Mr. Mackenzie: I agree partially with Mr. Ferraro but, with respect, I do not think that is the only option. I think also this issue is important enough that if we cannot get hold of that material sooner in some cases, and we may feel it is fairly essential to us, that does not mean we cannot make our own efforts to get it from sources.

Mr. Ferraro: What does "sooner" mean?

Mr. Mackenzie: Well, if they are doing this study on the areas that are going to be impacted and if we are going to wait until that is filed in the House, that could conceivably be days or weeks down the road. It may be that we can dig up some of that information we want ourselves through other sources.

Mr. Ferraro: I appreciate your concern but--

Mr. Mackenzie: I do not think the committee should be totally dependent on information from the government; that is what I am saying. It has never been the principle of any of these committees. They have had the right to go after this material, and if we are not exercising that, we are in some trouble.

Mr. Chairman: I think we are into a very hypothetical discussion. We have not asked for any information from any ministry. As a private member, frankly, I have talked to public servants throughout the fall on what they are doing, and the information has been forthcoming. I have not had any problem getting it.

Mr. Mackenzie: I think we did ask, as a result of a request at the meeting last week, to have a list, at least, of those areas that would be under. We did not ask for the legal opinions on them but certainly a general outline. We did not get that, either.

Mr. Chairman: That may be the fault of the chair. The only thing we were turned down on was on the basis of a long-standing--and it had nothing to do with this committee--view from the Attorney General that they do not provide legal opinions to committees, and they were doing that long before we existed, as far as I know.

One more, Mr. Neumann, and we will cut it off.

Mr. Neumann: Would it be possible to set aside the context, for the moment, of the trade agreement and simply get a list--this may partially satisfy Mr. Mackenzie's request--and help the committee get a list from somebody with constitutional expertise of what are all the areas of exclusive provincial jurisdiction. Then when the final text of the trade agreement comes out, we can examine that and see whether any of those areas are affected, what are the areas of exclusive provincial jurisdiction within the Canadian Constitution.

Mr. Chairman: Would it be appropriate to ask Dr. Russell to address that, or are you looking for that from the province, from the government? You start with section 92 of the British North American Act. Is that not really what Dr. Russell is discussing? You want some sort of formal statement from the government?

Mr. Neumann: Perhaps you could speak to him and say that that is one of the things we would be interested in having reviewed.

Mr. Chairman: All right.

Mr. Mackenzie: With respect to my colleague, I think it is a useful suggestion, but I would suggest that it not be put in terms of "exclusively," because I suspect you might be told there is not a single one of them that is exclusively deemed to be an area of provincial jurisdiction. That word "exclusively" could literally exclude just about everything.

Mr. Chairman: All right, we have received the message. I think the committee will receive all the information it needs, I am quite confident of that, starting, we hope, on Tuesday with Dr. Russell.

There are some other topics that I want to discuss, and I do not think we are going to be long in our meeting today. One is the proposed budget. Committees have to receive specific funds for their work, and it is the duty of the chairman and the clerk to attend upon the Board of Internal Economy and ask for the moneys needed for such things as coffee and juice and all the other things which cost a little more than that, which are set out in front of you.

Mr. Carrozza has prepared a draft budget. What he did was simply take a budget that was passed by this committee and accepted, I believe, by the board last spring in the previous House. The moneys were not spent and they remain in the government coffers. At that time, there was a plan to sit through the summer and to attend in Washington during what were expected to be the last exciting days of the free trade negotiations. That did not occur, of course, because of the writ being issued.

Mr. Neumann: It might occur in the next few days.

Mr. Chairman: It might well, but that is the basis of what he has done to give us a draft to look at and discuss, so that we may appear before the committee. I have asked him to take the Washington expenses out of this document and simply to give us what is left.

There are extra costs to a committee if it sits when the House is not sitting. In fact, they are, as you can see, per diems paid to committee members when the House is not sitting as well as extra transportation expenses, etc., which are billed to the committee as opposed to your own private costs. Those are things that would be considered if the committee were to wish to sit during the break, and I expect it will. Again, we would have to be given permission from the House to do that.

As well in this budget there is an advertising budget. Last week, we discussed the prebudget hearing and the desirability of commenting on tax reform. It is my understanding that the federal government would like to have some indication of where our government stands on tax reform as early as February.

The Treasurer (Mr. R. F. Nixon) is going to have to address this issue in some detail in the budget in May, but by February they are going to want to have information for purposes of preparing tax forms. The hearings concerning the budget and tax reform really should be on the front burner so that the staff can commence to invite witnesses, presumably for a period when the committee is sitting during the winter break.

It is my view that we should be very extensive in making sure that everyone in Ontario who has a view as to what taxes should be knows that there is this outlet. It is traditional for various groups and interests, be they commercial groups, labour unions or whatever, to have a view on what should be in a budget. Tax reform suggests starting from scratch and taking a basic look at everything. Therefore, I think it is important that as many people who might have an interest as possible know about it.

It is debatable, I know, as to what value putting advertisements in newspapers really has, the extent to which they are really read. But unless I hear otherwise from committee members, I would be instructing the clerk to be very aggressive in trying to make sure that as many people and groups as possible in the province know about these hearings.

Because of time, it is important as well that the hearings be joint hearings. A lot of the groups will want to address both topics, the budget and tax reform, and the issues will cross. However, I know it will be of some value to the Treasurer if the committee decides to have an interim report on tax reform by February. That is the budget aspect of it.

I hope that we can perhaps instruct the clerk today to commence inviting people to these hearings. In fact, there were a number of invitations sent out in the spring and there were some replies, I believe, and we had to inform them that the hearings had been cancelled.

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Mr. Ferraro: Just quickly, I will try to be brief, would it be beneficial for the committee to have, for example, someone from the Treasurer's office appear and answer questions vis-à-vis what effect the committee's report, considering it was the first one last time, had on the preparation of the budget.

Mr. Chairman: That is a good question. In response to that, I invite members of the committee, on behalf of the Treasurer who has extended this invitation, to a luncheon meeting with him and his staff--

Mr. Ferraro: This was not a setup.

Mr. Chairman: No--on Tuesday, December 15, that is, a week from Tuesday, at the Treasurer's boardroom, Frost Building South, 7th floor, from 12 o'clock to 1:30 p.m.

The Treasurer suggested this to me and pointed out that until he became Treasurer, he had never darkened the door of or seen the Treasurer's office in the 18 or 20 years that he had been in this Legislature. It was his desire that those members who are on this committee at least have some working knowledge of the office, and that resulted in the invitation to a luncheon.

I think that would be valuable, but that is not quite what you are saying, Mr. Ferraro. You are talking about something on the record.

Mr. Ferraro: Either that or informally, I do not care. All I am trying to say is that was our first report, and I think the committee members, or at least I, would like to find out whether we were wasting our time and the taxpayers' money or whether we had some influence, which I believe is the case, on the budget process. Whether you want to do it on the record or informally is fine with me. I do not care.

Mr. Chairman: Tell me again what it is you would like us to do.

Mr. Ferraro: I am open to either.

Mr. Chairman: It is the case that the Treasury is in the process of finalizing a budget that is being called the grey report, with a small g, I suppose because of the colour of the cover. That should be available this month. I expect Dr. Purchase will be extensively available for the committee's use after that. That would seem to be the appropriate time to have him here.

Mr. Morin-Strom: I have to question what we can do of use within a time frame of needing to have to break from the committee in February. You seem to be suggesting that the Ontario government had to have or the Treasury

had to have a position by February. This means they would be well in the process of developing that by now. If we are to lay something on their laps within weeks of meeting and weeks of them having at least an initial position for the federal government, I question how much we can do.

Perhaps a better task is to look at reacting to what Mr. Wilson is planning to do in the spring afterwards, rather than making a hasty decision in the province as to what we think should be the position on tax reform particularly. The budget deliberations I regard as an ongoing process.

However, in terms of the break generally, to me the priority has to be on the referral we are getting from the Legislature on the trade agreement. That has the greatest long-term consequences to the province and that we are in the imminent process of, not only while the negotiations are generally regarded as completed apparently, but the American ratification will be going on during the period January to March and they will be having their vote on it at the beginning of April.

We do not know exactly how the approval will occur within the federal government here, but undoubtedly there will be implications on provincial legislation and requests for changes to provincial regulations or legislation. Certainly, in terms of the public interest, I think these various groups you are talking about at this point are far more concerned about having an opportunity to appear before this committee on the trade agreement than on either of the other two issues in terms of critical timing and overall priority.

Finally, I am surprised that the travel plans were taken out of the budget. I would suggest that the committee, which has already been to Washington three times and I think found the trips of tremendous value in the process of analysing trade positions and, in particular, getting better understanding of the way the American think in relationship to trade with Canada, should be including at this critical stage another visit to Washington and organizing it similarly to the last one, which I think was particularly successful. It was extremely crowded, but we did see a number of congressmen and senators.

I would very much like to suggest that the committee have such a briefing in Washington again before we come back here in March or whenever--I think in February or March some time--down in Washington.

Mr. Chairman: It was not taken out of the budget for any editorial reasons, Mr. Morin-Strom. It was simply that this is a fresh budget. These are things that seem to be generic, and I wanted the committee to decide itself on that issue.

Mr. Ferraro: Dealing with the latter issue that Mr. Morin-Strom discussed first, I am not perhaps as anxious about going to Washington again considering the fact that I think we are going to be inundated with the free trade stuff over the next few weeks and the deal will--if there is a deal, much to the chagrin of some of my colleagues--be basically set.

Having said that, I think maybe the committee should consider--

Mr. Morin-Strom: Not passed or implemented.

Mr. Ferraro: I agree, but let me finish here. You may want to do that. Yes, we should deal with the free trade deal as much as we possibly can

but I think we should be putting an eye on the General Agreement on Tariffs and Trade process, considering that the round has started and one of the overriding commitments the committee has made and the government has made is to the GATT. Perhaps we should look at a trip in relation to the GATT--well, both.

Having said that, I think Mr. Morin-Strom is right. The budgetary process is well under way. A lot of the ministries are in the process of preparing presentations to cabinet and the Treasurer and, quite frankly, to submit this committee--I think part of the problem is we had a September election. The process is difficult even when we do not have a fall or summer election, but we did and here we are.

I would concur with Mr. Morin-Strom that we should deal with the free trade issue as much as we can. I guess where I would part with him a little bit is that I think we can still serve a purpose, notwithstanding the deadline on specific issues and, in direct contradiction perhaps to what some members may think, the tax reform area. We will be getting a lot of opinions from different ministries on that and I think the ramifications are serious enough that it should be the prime concern, maybe after free trade, of this committee to make a representation to the government.

1100

Mr. Chairman: I think if we work hard, we can do everything.

I should tell you, because I neglected to a little earlier, another thing we have been working on this week is getting a hearing from the trade negotiations office. We have invited Mr. Reisman here. He is too busy, as he has been for the last two and a half years. I appeared before my own chamber of commerce yesterday and indicated, as I always do, that we found out much more about what the Canadians were thinking from the American community than from the Canadians because of the lack of co-operation.

They pointed out, "How come Gordon Ritchie was down last week talking to them about what the TNO has been doing?" as he does all over the country. We are waiting to hear from Mr. Ritchie and, possibly, he will be available next Thursday morning.

Mr. Mackenzie: I have some specific things with regard to the budget, first off. There are two areas that struck me. First, I am not sure whether I understand your later remarks, but the fact that you had asked the clerk to prepare this budget cutting out the travel portion of it. I think that would be a mistake. Mr. Ferraro may have a point but, in my opinion, it is the crucial next couple of months' debate in Washington on this issue. Whether or not we are players in the game on this issue may be a moot point. It seems to me that if you are going approve the budget now, it should cover the potential of travel for at least a week on this thing.

Second, I am not sure your fees and expenses for witnesses are adequate. You may have some experience in that--I am not going to go by it--but I find that if we are going to have the number and type of witnesses before us that you are talking about, \$3,000 may not be adequate for fees and expenses for witnesses.

I raise both of those points with the chairman because I think they are legitimate. The final point, I guess, ties in to some extent with that request. I agree with my colleague--and I see that Mr. Ferraro does not

disagree--that the key focus for this province and this country is going to be what happens in the trade deal.

This is the first time we have been asked to participate in any prebudgetary arrangement. That is useful, but I suspect also that those arrangements are well under way. The budget will be some time this spring when the House goes back in, and I am not sure we are going to have an awful lot of impact on that, as much as I might like to think we might. I do not think that is realistic.

There is more of an area in terms of tax reform that we probably should be taking a look at in this committee. It is essential that we do have some input in that particular area but that we keep our focus on what is the most important issue as far as the people are concerned right now, this whole trade deal. That is why I think it would be proper to leave the travel in and to increase the fees and expenses of the witnesses.

Mr. Chairman: I have the information here that was in the travel budget. I simply took it out, Mr. Mackenzie, because I thought it would be presumptuous of the chair to presume it. I have material here that would document three days in Washington, two days travelling, one day each of travelling to and from.

Mr. Ferraro: I do not think it is enough.

Mr. Mackenzie: What if we decide not to go to Washington and we want to get involved with the GATT?

Mr. Chairman: All right.

Mr. Mackenzie: I do not deny that may have some relevance, but I think Washington is going to be where the action is at the moment. I certainly think that is a minimum that you should be doing in terms of travel. You can go back to the board but it is much better to have it in the budget to begin with.

Mr. Ferraro: I agree with you.

Mr. Chairman: I am open to a motion adopting something we have in front of us but it sounds more as if the committee is saying it would like a draft budget that would include travel out of the country.

Mr. Mackenzie: I would suggest that, Mr. Chairman, and that we take a look at the witnesses' fees and expenses before we finalize them. They may be adequate, but when you talk about the kind of area we are trying to talk, I strongly suspect you are not going to cover it for \$3,000.

Mr. Chairman: All right. I will direct the clerk to come back as soon as possible, possibly the next meeting, with a budget that will include travel out of the country, a trip to Washington for three days. That is what we spent the last time. It was a crowded three days.

Mr. Morin-Strom: It should be more than three days.

Mr. Chairman: Retaining J. O. Associates as opposed to the Canadian embassy.

Mr. Morin-Strom: You are talking about going down Monday and back

Friday. That will be three full working days. If I remember, we got about half a working day the first day and the same on the last day, maybe only one.

Mr. Chairman: Because we did not stay longer. So you are talking at least three full working days.

Mr. Morin-Strom: Yes.

Mr. Chairman: All right. We will have that prepared for you next day. Perhaps we can put off further discussion of the budget until Tuesday.

Mr. Mackenzie: I am presuming you are going to take a look at witness fees and expenses. It may be adequate, I just do not know--

Mr. Chairman: Witness fees and expenses, we will take another look at that as well.

There are just two other quick matters. When I was giving my overview last week I neglected to mention the pension report that will be prepared and released, I think sometime this month, the whole issue of indexing of pensions. I should have just simply mentioned it because it is an area that this committee might want to peruse and I will simply leave that at that.

The other thing that I did not mention last week, frankly because I had not noticed it until about an hour after the meeting, was that the Provincial Auditor had commented on our lack of dealing with estimates. I would simply say this for the record. The auditor was correct in that it was the standing committee on public accounts in 1980 which described the standing committee on finance and economic affairs as a committee that would be looking at estimates from an auditing point of view as opposed to a policy point of view.

There was, as well, a discussion paper that we did discuss last week, that accompanied the 1985 budget. I do not read anything into the budget paper which would suggest that this committee would be an estimates committee. Just for the information of new members, in the last House this committee in fact sent estimates back to the House simply because we did not have time to deal with them and we were short of time.

It is the chair's view that our primary involvement should be that of policy formation as opposed to an auditing committee. There may be some plans in the works for a different committee to be looking at estimates. I do not know.

Mr. Morin-Strom: Certainly we have a lot of tasks in front of us right now and I think the general area we are in of finance and economic affairs is always going to have a lot of high priority items.

However, it does not make any sense to me that we do not do the estimates, at least for the Treasurer and the Minister of Economics (Mr. R. F. Nixon). Those, it would seem to me, most clearly are within our purview. We are being asked to make recommendations to the Treasurer on the budget and hear all kinds of submissions on where we should be going with the budget. I think it is only right and proper that we should have the responsibility each year for doing the estimates of the Treasurer and having the opportunity for the Treasurer to appear before us to answer our questions on what is going on within his ministry and the finances of the province as a whole. So I think that the Treasury should be requested, in terms of estimates, to appear before this committee each year.

Mr. Ferraro: I agree. It does not make any sense not to have the Treasury appear.

Mr. Chairman: With the number of things that we are putting on our plates really--

Mr. Morin-Strom: There are a lot of estimates that are not going to happen this year, frankly, but on an ongoing basis we should find the time to have the Treasurer appear to us early in the year, I would suggest before we get into a budget deliberation.

Mr. Chairman: I am prepared to entertain a motion to that effect and certainly to relay that to the Treasurer, but I would also remind the committee that we have only asked for one extra sitting day, as opposed to two that we might have asked for and maybe that is a matter to be considered as well. I am just informed that the Treasury and Economics' estimates start next week in the standing committee on administration of justice.

Mr. Mackenzie: I thought they had already been assigned, but--

Mr. Chairman: Justice would have the right to send them back and they could be sent here.

1110

Mr. Mackenzie: Well, while I do not disagree with either my colleague or Mr. Ferraro, I would be inclined to leave them where they have been designated, at least for this year. I am just simply looking at what is on our plate and I think it is going to be very difficult. I know that they are cutting down the time of all of the estimates. They are making some effort to get them through. I guess is all I am saying is I would not make the argument on such short notice. I guess that is all I am saying.

Mr. Ferraro: Mr. Chairman, if I may interject, I think Mr. Mackenzie is making sense. There is a motion in order that this committee suggest we dispense with estimates for this particular period, but would suggest that the logical place for Treasury estimates is this committee and that perhaps in the next particular period for estimates, that could be addressed.

Mr. Mackenzie: I would be inclined to suggest that three or four weeks down the road when we are likely to find them switched in the middle--

Mr. Chairman: Mr. Decker is of the view that it is probably too late for this year, but it might be in order that we have a motion that I relay to the House leaders to the effect that in the future Treasury and Economics' estimates come to this committee.

Mr. Mackenzie: A couple of weeks down the road.

Mr. Chairman: Are there any other estimates? What about Revenue?

Mr. Morin-Strom: I would like to make that motion.

Mr. Chairman: Mr. Morin-Strom moves that the Treasury estimates come to our committee as an early priority each year.

What are we going to include in that? Treasury and Economics, Revenue?

Mr. Ferraro: At this point, I only want to talk about Treasury and Economics.

Mr. Chairman: All right. That is the motion that is on the floor.

Mr. Morin-Strom: Ideologically, we are looking at budget recommendations for the budget for the next year in terms of our hearings. Theoretically, the estimates are looking at the budget for the existing year. We should be reviewing the budget that has been presented in May and doing the estimates on that before we go and have our hearings on suggestions for the following year's budget.

Mr. Ferraro: I do not have any problem with that motion, but I think Mr. Mackenzie brings a good point. If we send that motion in now, I can just see Mr. Nixon saying: "I absolutely agree. Switch it from justice to the committee." What does that then do with our free trade discussion? Facetious as it may have been, I think it makes sense to wait a few weeks before that motion.

Mr. Morin-Strom: It is already scheduled.

Mr. Ferraro: What if they change it?

Mr. Chairman: We heard the motion to the effect that we are talking about next session. Is that not what you meant?

Mr. Morin-Strom: Yes, the next fiscal year.

Mr. Chairman: Could it be worded in a way that it is very clear that we are satisfied with what is happening right now, but we are anxious for this to happen in the second session of this Parliament?

Mr. Mackenzie: I would support the motion regardless, but I would also not be too facetious if I say that probably the motion should be forwarded to the House leaders.

Mr. Ferraro: I agree.

Mr. Mackenzie: Make the schedule and the House leaders will work it out.

Mr. Chairman: All right. We may have a delay in--

Mr. Ferraro: Maybe you could bring the wording back to the committee for its perusal.

Mr. Chairman: All right. Is there any other discussion? Are you ready for the vote? Does everyone understand the motion? All in favour? Unanimous.

Motion agreed to.

Mr. Chairman: Is there any other business? All right.

The House leaders are discussing our request to meet on Tuesday next. I expect it will be passed and we will be meeting Tuesday with Dr. Russell and possibly one other witness. We are working on the trade negotiator's office for Thursday of next week and we will be accepting the invitation of the Treasurer to meet with him and his officials for lunch on Tuesday, December 15.

Mr. Mackenzie: Where was that?

Mr. Chairman: That is in the Treasurer's boardroom, seventh floor, Frost Building South. Mr. McCague?

Mr. Mackenzie: What was the time?

Mr. Chairman: Twelve noon.

Mr. McCague: Mr. Chairman, I missed a little at the start today, but I have not had any indication that you have drawn up a schedule of what you might do and when. Would it be appropriate to ask you, as chairman, to bring to us a schedule at the next meeting?

Mr. Chairman: Could you define though what it is you want me to do? We have got two or three things balanced on our plate.

Mr. McCague: That is right. How you are going to balance them is what I would like to know. What do you see us doing and when?

Mr. Chairman: You missed the part when I indicated that there is concern from the Treasurer that we get involved in our prebudget hearings quickly enough to maybe say something in the way of an interim report on tax reform by February. I think there was some concern from the committee that might not be feasible.

Is that fair, Mr. Morin-Strom? You indicated that might be rushing it a little, I think.

The committee has asked us to prepare a budget that would include dealing with the trade issue. We are expecting a resolution from the House on the trade issue which will occur subsequent to the final text, as I understand it; so the trade issue and the prebudget hearings which would likely include tax reform hearings are the two major items on our plate. Frankly, at the moment we are juggling them both at the same time.

Mr. Ferraro: Is it appropriate to have the subcommittee do that, if we have a subcommittee--assuming that we will?

Mr. Chairman: We raised that issue last week and basically we tabled it. I am quite open to having one, if you wish. I think on most of these items it has been valuable, frankly, to have the whole committee discussing these things. It helps the whole committee realize the number of issues we have had to deal with, especially as we get witnesses lined up. It might be appropriate to have a subcommittee which would be one member of each party, and the clerk, chairman and researcher usually meet to plan scheduling, decisions of the subcommittee having to be confirmed by the full committee. Sometimes that will be open for debate.

Mr. Ferraro: Let me see if I understand, Mr. Chairman. It is Thursday and I fall asleep on Wednesdays and do not wake up until Mondays. Having said that, are we saying we know a general agenda? We have a general idea where we want to go. Mr. McCague's question is how in fact do we have an agenda per se? It is my impression we have a very vague one and to make it more specific, we really need more time to find out what is on our plate. Or, are you suggesting that the committee as a whole determine the specific agenda planning?

Mr. Chairman: No. I am quite prepared to meet with the subcommittee. I am suggesting that there are deadlines, certainly with regard

to prebudget. They are perhaps less urgent in one respect with regard to the trade issue, but they are obviously urgent, too, because it is a fast-moving debate.

Mr. Ferraro: I guess what I am saying is I think the subcommittee can solve an issue a hell of a lot quicker than a whole committee.

Mr. Chairman: Than a whole committee. All right. Do you want to strike one?

Mr. Ferraro: Whatever the committee wants to do.

Mr. Chairman: All right.

Mr. Mackenzie: I will suggest Mr. Morin-Strom.

Mr. Ferraro: I will suggest Mr. Pelissero.

Mr. Chairman: And yourself, Mr. McCague?

Mr. McCague: I will suggest George McCague.

Mr. Chairman: All right. Would you like that committee to meet within the next three days if we can?

Mr. Ferraro: Whenever the committee wants to meet.

Mr. McCague: What I was really getting at was the comments that were made by some here, that the prebudget considerations, probably because of timing, sort of take a back seat to the other two issues that we have before us. Therefore, I was just hoping that you could come up with a schedule that we could discuss, whether we are on tax reform or whether we are on free trade.

We really have not had the discussion among the committee members of what it is we really want to deal with. Do we set aside the prebudget discussions or do we not? There seems to be some feeling that is the lesser of our three tasks at this point, or the members would like to make it that way. That is why I raised the point. I know what is ahead of us, but what are we doing to do about it?

Mr. Chairman: You are suggesting that it is a scheduling problem, that perhaps a subcommittee can settle.

Mr. Morin-Strom: We have to be kind of realistic about how many weeks we are likely to get. We are effectively going to accomplish nothing tangible in the next two weeks on those issues. The question is that during the break, which I expect will go to the March break from Christmas, at least that is what I've heard from the House leader, we have got a question of committees competing for time, and how many weeks are we going to get? That is the time when we get a lot accomplished when we sit for a week at a time.

The budget has eight weeks. I would be surprised that we are allocated eight weeks. I would be surprised that we would want to sit for eight weeks out of maybe a 10-week break. That is what it is. Perhaps more realistic is six weeks, three on each or something like that. I think we should have a little discussion as to what are we looking at. How many weeks are we going to sit on trade? How many weeks are we going to sit on budget, if we are going to? How many weeks are we going to sit on tax reform?

Mr. Chairman: I think your point is well taken, and I think we all have a good sense of what the problem is. Perhaps a meeting of a subcommittee would get down to estimating the number of witnesses and so on, coming to some conclusions and dividing up the weeks. Then, I take it, we will have to make the request to the House leaders. That probably is in order very soon.

Mr. McCague: I think it brings up another point about your advertising budget. If you are not going to go too heavily on the prebudget meetings, then maybe you are not going to advertise as extensively on that subject as we might otherwise do; but you may, on the other hand, do it on tax reform and free trade.

Mr. Chairman: I had thought it might be advisable to have one advertisement that would point out both. It might save money as opposed to having two advertisements that essentially had a lot of the same information in them.

Mr. Mackenzie: You could schedule them anyhow. I think there is some merit in that, but the sooner you have your advertisements out. If you are covering the period in the off-session when we are sitting, then I think the you and the clerk can do the scheduling.

Mr. Chairman: Yes. Perhaps we can have a draft advertisement ready for Tuesday that would include both. I will try to arrange a meeting that is at the convenience of the members of the subcommittee, hopefully before Tuesday.

Is there any other discussion on the motion of Mr. Ferraro to create a subcommittee?

All in favour? Opposed?

Motion agreed to.

Perhaps the subcommittee appointees could stay with me right now and we could either choose a time for a meeting or we could even hold the meeting at this moment.

The committee adjourned at 11:24 a.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

THURSDAY, DECEMBER 10, 1987

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Clerk: Carrozza, Franco

Witnesses:

Individual Presentation:

Russell, Peter, Professor of Political Science, University of Toronto

From the Ministry of Industry, Trade and Technology:

Lavelle, Patrick J., Deputy Minister

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, December 10, 1987

The committee met at 10:05 p.m. in committee room 1.

TRADE WITH UNITED STATES

Mr. Chairman: I see a quorum. We can get started. We have a very heavy agenda this morning. We have with us, first of all, Professor Peter Russell, political science department, University of Toronto. He is here in explicit answer to the request of some members of the committee to have some experienced answers to the questions we have on constitutional powers between the federal and provincial governments with regard to the free trade agreement, which apparently is going to be tabled this afternoon in the House of Commons.

Later this morning at 10:30, which is only a few minutes away, we are going to be visited by Patrick Lavelle of the Ministry of Industry, Trade and Technology, who will give us an overview of some of the reactions to the agreement that are occurring within his ministry.

Professor Russell has to leave at 10:30. He does not have a prepared text. He is here at your request to answer some of the questions that you have on the Constitution. Therefore, without asking him to give us any opening statement, I will ask if there are some questions. Do not all ask at once.

Mr. Ferraro: What I would like to know from Professor Russell is, to be quite blunt about it, how much clout, if any, do the provincial jurisdictions have vis-à-vis the federal right to make treaties between two countries?

Mr. Russell: They have a lot, but it depends entirely on the subject matter of the treaty. For instance, the federal government can negotiate a treaty on education standards, say, some international treaty to bring education up to a certain standard. In Canada, we would have to rely almost totally on the provinces to implement an international agreement on education, because education is pretty well exclusively a provincial responsibility.

You certainly can say the provinces may have an important role in implementing a treaty. It depends again on the subject matter of the treaty. You really have to differentiate one treaty from another.

I suppose you are here this morning with an interest in the free trade treaty, which has to do with international trade. Generally speaking, international trade and commerce is exclusively a federal responsibility, so whatever role the provinces might have in implementing it, if any, would be extremely slight. International trade and commerce, regulation of imports and exports and that kind of thing are indisputably federal responsibilities, and exclusively so.

Mr. Ferraro: Would the United States, in this agreement, whenever we see it--I guess it will be tabled this afternoon, as the chairman indicated--insist, as a matter of course, on the unanimous agreement of the provinces in, for example, the area we do have jurisdiction over, the wine

industry? Would they insist on that or would they just say, "We are going to make a deal and let you worry about getting the provinces in line"?

Mr. Russell: I am not an expert on what the Americans might be planning to do. My personal opinion is that it would be an unconscionable interference in Canadian affairs for them to tell any Canadian jurisdiction what it ought to be doing about our relationships between federal and provincial governments. I do not consider that the business of the United States government. I hope they would not meddle in that way.

Mr. Chairman: That question was asked in the federal committee to Mr. Ritchie of the trade negotiations office and he said it was none of their damned business.

Mr. Russell: I agree with that totally, whatever position they were taking. If they said the provinces had no role or had a big role, I do not care what they did but I do not think it is for them to be telling our jurisdictions how to operate our constitutional system. They may have private opinions on it and scholars may write about it, but the government is none of their government's business.

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Mr. Mackenzie: Conversely, would you say, whether they in effect told us to or not it is an issue that very clearly affects the province?

Mr. Russell: Sure, it affects all the provinces, because the trade and commerce that is going to be regulated by the treaty and the legislation implementing the treating is trade and commerce that goes on in the provinces of Canada. That is where most of our productive industries are located, except a few in the territories, but the international trade aspect of any business in a province, including the wine business, is an aspect that is under federal jurisdiction.

Wine and cars and things like that are not exclusively federal or provincial. It is all a matter of the aspect of cars or wine or whatever product you are dealing with, whether you are dealing with it in a intraprovincial aspect, just within the province, or whether you are regulating the international trade and commerce aspect. Whether it is wheat or petroleum or automobiles or wine, the international trade aspect of the product is exclusively federal.

The one doubtful area in a legislation implementing the treaty that may raise some constitutional difficulties is services. I have not seen the treaty, but I have read in the newspapers that services are to be covered to some extent. Traditionally, provinces have had a large, pretty well exclusive role in regulating, for instance, occupations, such as law, architecture, engineering and medicine, setting standards and so on.

There may be some difficulty in having free trade in professional services if that encroaches on the licensing power of provinces over particular occupations, because an occupation is not quite like a product such as wine or automobiles. It does not flow in a trade sense in the same fashion.

Mr. Chairman: If I may just follow that up, of course we do regulate our occupations and we are quite proud of a lot of our consumer protection legislation. A lot of it requires residency in Canada or in Ontario or citizenship. Could we be forced to amend that legislation?

Mr. Russell: Can you give me an example?

Mr. Chairman: To sell real estate in Ontario you have to be a resident of Canada.

Mr. Russell: A resident?

Mr. Chairman: I believe you do.

Mr. Russell: But not a citizen?

Mr. Chairman: In fact, I think you have to be a citizen. I am just not certain of that at the moment.

Mr. Russell: There is a world of difference.

Mr. Chairman: Let us assume you have to be a citizen. I am almost certain that you do.

Mr. Russell: It is a citizenship requirement, as there is for practising law, I believe. That is one where you certainly do have to be a citizen to practise law in Canada. There is a famous case on that.

I do not know whether the treaty deals with that. If it does, let us just take a hypothetical clause in the treaty--and we have not seen the treaty; I suppose none of us has--if it said that American lawyers or real estate agents should be free to practise their profession in Canada regardless of citizenship, that still might be taken as within federal jurisdiction for at least two reasons.

First, the federal Parliament has exclusive jurisdiction over citizenship and aliens and over everything pertaining to that. That is a very large head of federal power.

Second, there is a doctrine in Canadian constitutional law called the necessarily incidental doctrine. It goes like this: If a piece of legislation which is very large is in pith and substance in a field of jurisdiction that is basically under that level of government's control, if you had, say, an omnibus free trade bill, a federal bill, and in pith and substance it basically deals with international trade and commerce, but it touches at the margins and in some parts of it on provincial jurisdiction, the courts have sometimes said if the overall legislation is OK, it can trench on the other jurisdiction, if it is necessarily incidental to its main purpose. This question really depends on how generous the Supreme Court is in the end, in applying that doctrine to a federal omnibus trade bill implementing a free trade treaty.

Mr. Chairman: I have one other supplementary question to Mr. Ferraro's question, if I may. There is a whole slew of cases, situations like that, not just real estate, selling used cars, and so on. Our legislation will lose all its teeth, unless we have some kind of extradition provisions to bring those Americans back into this country to face charges. I take it there is nothing we can do if they force us to allow them in.

Mr. Russell: No. Certainly, the laws relating to extradition have always been a national responsibility. One cannot conceive of a federal country that did not have a national control over that set of relationships with foreign countries.

Mr. Chairman: Even though we completely render useless a lot of our consumer protection legislation.

Mr. Russell: If you are talking about the merits of it, I am telling you whether the federal parliament can do it or not. You may well have qualms about whether it ought to be doing it, but I cannot comment on that.

Mr. Chairman: Sorry, Mr. Ferraro.

Mr. Ferraro: That is OK, Mr. Chairman.

Mr. Chairman: I then have Mr. Mackenzie, Mr. Pelissero and Mr. Neumann.

Mr. Ferraro: I will just conclude with this one question and let somebody else ask some questions.

In your experience, study and so forth--I am a little confused--let us assume that the federal government goes ahead and signs this thing on January 2. It has the right, and I do not think anybody is disputing that. I am a little confused about some of the articles I read about the fact that the Senate is going to have 60 days, or whatever it is, to approve it, but that actual change can be made, at least it is being implied, with the implementing legislation.

My understanding to date is that they are going to somehow change the deal when they put in their implementing legislation in the United States, but my impression is that Canada will not have the same flexibility. Is that your understanding?

Mr. Russell: No, it is not. I have noticed in my reading of the paper that there has been some misinformation on the Senate. The actual signing of a treaty does not require action by either house of Parliament. That is strictly an executive act. When it comes to implementing the treaty and turning it into domestic Canadian law binding on Canadian citizens, then Parliament, as a whole, has to pass the legislation. In that process the Senate has a full power, not just a delaying power, but the Senate would have to approve the bill before it became in effect.

Mr. Ferraro: So it could change it?

Mr. Russell: That is an international problem. If the treaty commits both parties to certain rules under the treaty and if their domestic legislation is inconsistent with that, then they are going to have to get back together and either rescind the treaty or amend it.

Mr. Ferraro: Let me give you an example. I am sorry but I am hung up on this. State legislatures have control over the banking industry. Of course, in Ontario we have the trust companies and co-ops. But, having said that, let us assume they deal with something in that regard.

Mr. Russell: State legislatures in the United States?

Mr. Ferraro: Right. So in the treaty they say they want free access to financial institutions both ways. It comes down to the Senate, then all of a sudden some of the state congressmen say, "Wait a minute, that's not it." They do not like it. Can they change that?

Mr. Russell: If they did, then the President of the United States

and his staff would have to come back to the Canadians and break the treaty off and say, "We can't get it through Congress."

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In the United States, unlike here, a treaty does not fully become the law until it is ratified by the Senate. Once the Senate ratifies it, then it is the law of the United States and it does not matter what goes on in the state legislatures. They have an overriding treaty power at the national level in the United States, unlike here. But if Congress will not go along with the terms of the treaty that the executive branch negotiated--that has happened before with Canada. We negotiated, if you recall, a fisheries treaty at the executive level for the east coast fisheries, and the executive branch could not get it through the American Congress, so the treaty was canned.

Mr. Chairman: I think it happened in 1911 with the free trade agreement too.

Mr. Ferraro: Conversely, for example, if they were giving financial institutions the same power to some degree because we have jurisdiction over trust companies and credit unions, then it would be up to the--

Mr. Russell: I think you are missing the point of my first remarks, though. It may well have been that in omnibus federal legislation implementing an international trade agreement, the federal Parliament could reach in to the regulation of banking institutions in the province and bring them in line with the treaty. I think they have a very strong argument to that effect, not only because under section 91 banks and banking are exclusively federal but, in addition, there is the international trade aspect of banking. On that one, my opinion would be that the federal Parliament would be home free in being able to regulate the provincial institutions.

Mr. Chairman: I am going to have to cut this line off. I want you to try to talk about the Canadian Constitution, if you can. The two constitutions are very different.

Mr. Mackenzie: I understand the override in the United States if the treaty is signed by Congress. My concern is with the provincial rights or provincial jurisdiction that we may have in this country in respect to the treaty. I also think that when we zero in on the service sector we are probably looking at the one area where there may be some room to manoeuvre. But I think you have just clearly outlined the difficulty we have even there in terms of the possibility of the feds moving in terms of banking and the financial institutions. That is my concern.

The side track we got on for just a moment when I responded to my colleague's question earlier was, is the US Congress likely to tell the provinces what they have to do? I do not think they have to. My concern is that if the treaty is signed, the effects of that treaty will tell us what to do in the province. It does not have to come out and be nasty or not nasty. It is just that we are bound by the effects of that treaty. What I was hoping you could give us today, call it a shopping list if you will, were the areas where there may be some provincial clout or jurisdiction.

Some of the things in the service sector are obvious, including the standards and licensing of some of the trades. But what other areas are there? We have all heard of the wine stuff. Whether there is any validity there, I am not quite sure. In what areas might there be some provincial jurisdiction or,

to be very blunt, might Ontario even use to fight with if it is not satisfied with what is going on in terms of the treaty? I do not know whether you can answer that or not.

Mr. Russell: My list would be terribly short.

Mr. Mackenzie: That is also what I suspected.

Mr. Russell: It might get longer if and when I get a chance to read the whole treaty.

Mr. Mackenzie: Yes, I understand that.

Mr. Russell: The wine thing, which I hear a lot about in the media, would not be on my list at all. In fact, I would be very surprised if, in any federation, a state or a province could control international competition with its domestic product in anything, be it wine, furniture or whatever.

It would be an odd federation if the units could put up protective barriers against competition with imports. In all the federations I know anything about, Australia, the United States, West Germany, Canada, India, the international trade and commerce aspect is an issue of protection. How much protection for domestic industry is a national responsibility.

Mr. Mackenzie: In your opinion, that is down the drain for that.

Mr. Russell: I do not know why wine would be any different from anything else. It would not even get on my list. It would be right off the list.

Mr. Mackenzie: Before you continue, there is just one other sector, which I think is also key to this trade deal. That is energy and pricing.

Mr. Russell: Yes.

Mr. Mackenzie: Would we have any jurisdiction there at all? What probably worries me more than almost anything is the fact that we could not use lower prices as an incentive in this country with excess hydro or energy.

Mr. Russell: I do not think so. The Caloil case, the Canadian Industrial Gas and Oil Ltd. case, the potash case, all three of those decided in the 1970s by the Supreme Court of Canada, all dealing with the international pricing aspect of petroleum, particularly the potash case and the CIGOL case, made it very clear that the Supreme Court believes that, as far as the international pricing aspect of petroleum is concerned, that is right outside of the province's jurisdiction. If it is something entirely domestic that does not impinge in any sense on foreign trade and commerce, then the provinces may have some jurisdiction, but in the free trade deal, we are talking, are we not, about eliminating the two-price system--a higher price for the Americans and a lower price for Canadians. That is clearly an international pricing policy.

Mr. Chairman: Members of the committee will have two other experts to deal with for a full morning next Thursday, I should warn you, but Professor Russell has to get away in a few minutes. Very quickly, one minute each, Mr. Pelissero, Mr. Neumann and Mr. Nixon.

Mr. Pelissero: I would like to concentrate for 30 seconds on the American process, at the risk of the wrath of the chairman. The fast-track approval that we read about in the media implies, from my limited understanding, that they have the ability either to accept or reject the whole deal without any amendments. Is that correct?

Mr. Russell: That is my understanding.

Mr. Pelissero: OK. You have basically said that the two executives, Reagan and Mulroney, have the ability to sign the agreement; then implementing legislation comes along at a later time. The fact that those two individuals have signed the deal--let us take the American side--does not necessarily guarantee that the deal is going to be authorized by or agreed to by their ratification process.

Mr. Russell: We were just watching that with Mr. Gorbachev, who spent yesterday afternoon in the Congress, having signed a treaty with President Reagan the previous day. It is the same thing with our free trade deal.

Mr. Pelissero: I do not hold out that kind of hope for our side from the federal point of view, given the reality of the numbers federally.

Mr. Russell: Yes.

Mr. Pelissero: With respect to the United States, they talk about having to deal with it within a 60-day time frame. Is there not a maximum time, after it is laid before them on January 2, to meet the January 3 deadline? Do they have to consider it within a certain period of time before that fast-track approval runs out? What is the minimum and what is the maximum?

Mr. Russell: Yes, I understand there is a time period, but I am not sure when it runs out. I thought it was just three months, but it seems they are now talking that they have a little longer than that.

Mr. Pelissero: Again, from the media, they implied they are asking for almost a six-month extension of that fast-track approval till June, because they feel that any necessary legislation that is going to have to be changed cannot be readied in time to pass through their various legislative processes. Is there a six-month extension to the fast-track approval? Who would have to agree to that before that could possibly happen?

Mr. Russell: I do not know.

Mr. Chairman: You should understand, Mr. Pelissero, this is the first time that this legislation has ever been really tested. Also, we have learned, those of us who have been on the committee for a while, that the American laws apply to Canadians but not necessarily to Americans.

Mr. Neumann: I think we are getting the answer that there is precious little area of action for the provincial government with respect to the legal route to hold up the agreement. Assuming that is the case, and I am not sure that it is entirely until we have heard further evidence, looking at the political route, could you describe for us what options the people of Canada have with respect to abrogating a treaty once it has been approved? Let us say that Parliament does approve it, it is signed and is in effect, then an

election takes place and a new government comes in and wants to go back and start all over again. What is the precedent for that and what are the ramifications of doing that?

1030

Mr. Russell: The ramifications are pretty darned serious; that is for sure. It is an enormous embarrassment, I suppose, to the country and its reputation to rescind a treaty it has recently signed. I assume there will be provisions in the treaty for a period when it can be reviewed and rescinded. I do not know; maybe you have heard evidence on what that period will be. I hope that is observed by any Canadian government that comes to power, assuming the period is not a long one. At least that would mean we are keeping our word as a country.

I think if the people in the electoral process--I suppose this is my answer to the first part of your question--if they elect a government that is diametrically opposed to the treaty, then that is the way we go about it. That party then gets into power and under the treaty takes advantage of the provision to back out at the appropriate time and presumably does so.

Mr. Neumann: Do I have more time?

Mr. Chairman: Quickly.

Mr. Neumann: In your experience and having studied these matters, can you think of any other similar situation where a treaty such as this has such enormous impact over the future of the country for many decades to come with such a short time between the release of the document and the signing for the people of Canada to examine it? Is there anything else in Canadian history that comes close to that?

Mr. Russell: I do not know of any, but I am not a historian, Mr. Neumann. It would be better to address that to a historian. I just do not have the information.

Mr. Neumann: In Canada or in any other democratic country?

Mr. Russell: What I do not know about is the European Community and the common market and the legislative history there. The Treaty of Rome must be a very complicated document. I suppose if I, as a scholar, were to try to answer your question, I would dig into the history of the Treaty of Rome and to what extent it was produced in a way that could be examined carefully by the various jurisdictions that eventually signed into it. I just do not know that history, that being an analogy with it and parallel to it.

Mr. J. B. Nixon: Professor Russell, it is your opinion, as I understand it, that the federal government, by virtue of its exclusive jurisdiction and the doctrine of paramountcy, for a number of reasons, has the authority not only to sign this agreement but also implement it.

If the province, though, decided that it objected to the implementation of the agreement to the extent that it impacted on provincial law and regulation, for instance, the differential markups for Ontario wines or the mandate of Ontario Hydro to provide energy at cost, which may be perceived as a subsidy by the US, and the province decided that it was going to maintain that differential markup or that mandate for Ontario Hydro, by way of example, it is my thinking that, ultimately, this agreement would be resolved by a

court test in the Supreme Court or by federal-provincial negotiation, which may result in a different deal. Is that possible?

Mr. Russell: Oh, sure. We have often done that in Canada. We have avoided the courts on many occasions by, just as you have put it, getting together and making a political arrangement that both jurisdictions can live with.

Mr. J. B. Nixon: In effect, though, while we may not, baldly put, have the authority to block implementation of the deal in a purely legal sense, in a political sense we may well have that ability. Is that correct?

Mr. Russell: That ability to negotiate some terms in the agreement that are acceptable to, let us say, the government of Ontario?

Mr. J. B. Nixon: Yes.

Mr. Russell: Oh, sure. You have the chance to try. I do not know how well you will do if you work at that.

Mr. J. B. Nixon: That is right. Thanks.

Mr. Chairman: Professor Russell has a class to teach at 11 o'clock. I appreciate very much your taking the time to come here, Professor Russell. Obviously, you have been asked to entertain some questions about the American Constitution as well as the Canadian one because the process in both countries right now is somewhat confusing to a number of the members in the committee.

Mr. Russell: I might just say, Mr. Chairman, at both the University of Toronto and York University there are several scholars who are very well versed in the American congressional system of government and international treaties and so on. If you want any of those scholars, you can get them. They know more than I do.

Mr. Chairman: We may well still do that. At the moment we are trying to concentrate our concerns on our own process, which is as mystical as theirs, frankly. Thank you very much for appearing in front of us.

Members of the committee should be aware that next Thursday morning we will have H. Scott Fairley, who is a constitutional lawyer and adjunct professor of law at the University of Ottawa, at 10 a.m. sharp, and Professor John Saywell from the history department of York University at 11 a.m. to further look at these problems.

I would ask you to read carefully Mr. McLellan's document, which is in front of you, and some of the questions that are posed in his memo. Also, please read the article by Mr. Fairley, who is a practising lawyer with a law firm in Ottawa, some members of whom are actually being retained by the American government to try to figure out what our Constitution said.

Mr. Mackenzie: Just before we proceed with the next witness, my colleague has to leave in about 10 minutes and I am wondering if we could have a brief discussion in terms of the scheduling. My concern is the schedule as tentatively, or maybe more than tentatively, laid out in the meetings that the committee had, in as much as we are getting and as I understand it, more of the text of the trade agreement, it would seem to me that the first three weeks have got to be dealing with the trade issue, especially if we are coming

back in the House for a week in February with that on the agenda. I do not think we can go the other route at this time.

Mr. Chairman: I had expected to discuss this late this morning. I note Mr. Lavelle is here. If he is prepared to wait. Mr. Lavelle, are you free until noon?

Mr. Lavelle: Yes, I am.

Mr. Mackenzie: It might only take a matter of minutes.

Mr. Chairman: Is it the wish of the committee to discuss scheduling now?

Mr. Mackenzie: I guess what I would think is that we have to probably switch the order of arrangements that we have made and I believe--although I cannot speak for them--that there is even some sympathy or understanding of this with the House leaders. If we are getting the trade agreement, that has got to be the issue we should be concentrating on over the first weeks of the hearings, especially as I say coming back as we are--currently, at the moment, anyhow--for a week in February in the House.

Mr. Chairman: Members of the committee, you have in front of you the minutes of the meeting of the subcommittee which took place following a meeting last week. Last week we were presuming that the House leaders were going to give us permission to sit on Tuesday. As you know we did not sit on Tuesday. The House leaders deferred that until today because they too seemed to think that our only concern should be the trade issue.

I would remind members of the committee that the Treasurer filed with the House yesterday the Ontario Economic Outlook and Fiscal Review. It is part of our mandate to be perusing this review and making submissions with regard to a budget which the Treasurer would like to bring down in the month of May. I reminded the House leaders of that too and I understand they are looking at this issue again today.

The subcommittee felt that the budget review needed very urgent consideration. I think that was the view of the subcommittee at the time that we met, and that the trade issue, while certainly a hot one, was one that did not have as strict a time restraint on it.

Mr. Morin-Strom: I think that has changed quite considerably, particularly with the focus on the agreement that is coming forward today or tomorrow and also the fact that our House schedule has been completely changed from what the premise of our whole discussion was. We had assumed we were going to be off until the March break and we were scheduling for extensive hearings through that whole period.

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At this point, all we know is that we are coming back the second week of February and there is no guarantee that will be a one-week sitting or a two-week sitting. Many have suggested to me that any time we come back we can count on being here a good period of time. Obviously, it is far more critical to hold the free trade hearings than budget hearings at this point. We have to ensure that we get that job done.

Mr. J. B. Nixon: I certainly agree with everyone here that the free trade agreement has extreme importance not only to us as members of this committee but to all Canadians. None the less, I would suggest that, as a committee, we have a broad responsibility to deal with a number of issues. On tax reform, Mr. Wilson is making a statement, as I understand it, in mid-February and I think it is important for the government and important for the Legislature to examine that issue and look at it as it impacts upon all citizens of Ontario very significantly.

In addition, I think that certainly two of the parties have for a long time pushed for a much more open budget process, budget hearings and prebudget consultation. We have been given that opportunity in the last year or two and I think it is incumbent upon us to fulfil that responsibility. I think we really have three things to deal with as a committee. I do not share Mr. Morin-Strom's views that the return in February will be an extensive one. It is my understanding and, again, I do not have any secret information, we are coming back for a brief period of time. We have the entire month of January and, it sounds like, virtually all of February and March. At least two of those issues have finite deadlines. Tax reform is on February 15, and I would think we should have our budget hearings complete by mid-March.

The other question I would have to ask is: If one looks at the whole free trade issue, what is the nature of the debate that is going to take place? It is going to be a highly publicized agreement available to all? If my friend thinks we should be focusing on it, I think that before making that decision he should have a definite plan put forward as to what he intends to accomplish. So far I have not heard him say anything about what we intend to accomplish other than that we will sit and talk about it. On the other hand, the tax reform issue and the budget both have very clear objectives behind them. We have a clear plan as to what we are supposed to do and expected to do and asked to--both in his party and in this party when they were in opposition.

Mr. Chairman: I see Mr. Ferraro's hand, but before I recognize him, may I make a suggestion? I think Mr. Morin-Strom has a point in that there are some factors that the subcommittee was not aware of. The report that it has made may be of a less urgent nature than the committee now could be interested in. For instance, it talked about not starting any hearings until mid-January. Maybe we do not have that luxury in view of the three very urgent issues that we must discuss.

I should inform the committee that the clerk has prepared a number of drafts of advertisements dealing with tax reform and the budget in view of the urgency of this. I have hopes that the House leaders may give us permission this morning to sit and therefore we may have an opportunity to sit Tuesday of this week. Would it be appropriate to send these minutes back to the subcommittee for further discussion and for a more thorough report on Tuesday?

Mr. Morin-Strom: No, we need to have a decision. The House leaders have to plan what the schedule is going to be and we have to make a proposal to them in terms of when we want to sit. I cannot see how we can put this off again.

Mr. Ferraro: Mr. Chairman, let me chip in my two cents worth here. I have a tendency to agree with most of what both my colleagues have said, but quite frankly, I think what this committee has to determine is, first, our time line. If we are going to be serious about putting a report to the House vis-à-vis the free trade deal, which we will probably hear about in the next

couple of days, hopefully, we do not have a hell of a lot of time. Whether that is a plot on the part of the federal government or a coincidence is neither here nor there. I suggest, with respect, that it is probably the most important issue out of the three at this point.

I would say it is almost incumbent upon us, as a committee, to sit prior to January 2 and that we should do everything in our power to get more time. Quite frankly, after they sign the deal, we are going to have a fair amount of time to throw stones or bouquets, whatever the case may be, but I think if we are serious about getting a report to the House on the free trade issue, it is almost incumbent that we do meet prior to January 2.

I will just conclude by saying that I think we should have some prebudget consultation. I am not convinced that we are going to be able to allocate as much time as we did last time around. That is why, for me anyway, I think we would be better off to devote a little more time to tax reform.

Mr. Mackenzie: To be brief, with due respect to Mr. Nixon, I have real difficulty with his arguments. It seems to me that now that we are finally getting the text of the document--and I think we had some indications this morning that there may be some limitations on what we have to work with--and this House is coming back on February 8 or whatever the date is, we are going to look as silly as hell if we do not concentrate on this trade issue.

I know certainly it was the immediate reaction of a number of people, including our own caucus and House leader, who otherwise were not in disagreement with the schedule that was set up. I think we are really open to criticism if the concentration, for at least the first few weeks is not on what we actually have or do not have with this document.

I cannot for the life of me see this committee not taking that as the central issue in the next short period of time, particularly coming back in, when we may or may not be able to make some suggestions in the first or second week of February. It is just beyond comprehension that we would not. I think we would appear to be silly in this House and in the public, if we moved on to something else when our first mandate in this committee was the trade issue.

Mr. Chairman: The government House leader told me yesterday he would be prepared to give us permission to sit on Christmas Day; so maybe we can hold him to it.

Do I hear a motion then that would obviously be in contradiction to the proposal of the subcommittee?

Mr. Mackenzie: I would like to leave as much flexibility as possible. There may be some time we can get on these other issues, because nobody is denying their importance, but I think the trade issue has to be a priority. I would like to see the subcommittee change its priorities so that we are dealing in the first few weeks of hearings with the trade issue prior to the House coming back.

Mr. Chairman: What we need is a motion saying what weeks we want to sit and what we want to deal with.

Mr. Pelissero: I can give you a motion after a little bit of a preamble.

I tend to agree with Mr. Ferraro in the sense that between now and January 2, by whatever means, either as an individual or as a committee, I am going to have to sit down and read the 1,000 plus pages. Somebody is going to have to sit down and go over it, as much to try to bring back an executive summary, but we cannot do that. We are going to have to become immersed in it very quickly.

Probably, I see it in two stages. One is a quick overview analysis in terms of the document. When that comes out tonight, I know people will be staying up all through the night to give a perspective on the document. If it is necessary to sit right up until December 25, even the week after, to sit before January 2, we put that time in, if we are seriously interested in dealing with the free trade question.

Mr. Chairman: Mr. Pelissero moves that the committee sit next Tuesday and Thursday and the following Tuesday and Wednesday, December 22 and December 23, and December 29 and December 30, if need be.

Mr. Pelissero: To expect anything less--certainly, I know my constituents are concerned about it in terms of the impact, understanding and analysis of it. If it is not that serious an issue, if you feel it is going to be in the media for the next six to nine months, then the schedule put forward by the subcommittee is totally liveable with.

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Mr. Chairman: There is a motion on the floor.

Mr. Ferraro: On the motion, I am not sure he is being ridiculous, quite frankly. I guess I would ask Mr. Mackenzie what is more important, that we deal with it before they sign the damn thing or afterwards? Bob, you are saying, "Let us meet in February." I do not have any problem with that.

Mr. Morin-Strom: It is not the signing of it that matters; it is the implementation. There is going to be no point in meeting at a time when no one is going to sit before us.

Mr. Mackenzie: Everybody is going to be on holiday. We are not going to deal with it until after, some time in late February.

Mr. Ferraro: No, I think the implementation is very important, but before it is signed I think is extremely important as well.

Mr. Morin-Strom: We cannot stop the Prime Minister from signing it, but presumably there is something that can be done about stopping the implementation of it, and that is what we have to face. As well, in the US, we cannot stop the President from signing it, but the American Congress could stop the ratification of it.

Mr. Ferraro: You want to talk about birth control after the baby is born.

Mr. Morin-Strom: I want to talk about doing something.

Mr. McCague: Mr. Morin-Strom has just said he wants to do something that he can do something about it. I guess that was the reason that this recommendation came out from the committee as it has.

We were told that we were to have information to the Treasurer by February 1 for his budget purposes.

Mr. Chairman: Not necessarily February 1. He has to have some problems solved on tax reform in February.

Mr. McCague: We thought that where we could have some input was in tax reform, particularly in prebudget matters, that it was important to do those two first, if we are doing the thing that we are supposed to be doing here at Queen's Park.

I know people are upset by the free trade agreement, but there is not much we can do about it between now and January 2 or January 3. It is my submission that the schedule as set out here is the proper one if we are doing the work that we were elected to do here at Queen's Park.

Mr. Chairman: Mr. Pelissero, your motion just deals with two days.

Mr. Pelissero: It did not get seconded.

Mr. Chairman: I do not think it needs to be seconded. I does not deal with any period of time after the new year. Did you wish to incorporate part of the subcommittee's recommendations into it, so that there would be regular sittings going on after Christmas as well?

Mr. Pelissero: No problem.

Mr. Chairman: That being said, the subcommittee talks about taking the first two weeks of January off.

Mr. Pelissero: I do not think you can do that.

Mr. Chairman: They are the weeks starting January 4 and January 11. I now hear rumours to the effect that we are going to be sitting during the month of February.

Mr. Ferraro: February 8, February 9 and February 10, I would think.

Mr. Chairman: I do not know whether you want to work on that for a few minutes with a calendar and the subcommittee.

Mr. Mackenzie: In the interest of some sanity in this discussion, which has totally left us, I think, is it possible as a backup position that we could have the committee talk to the House leaders and sit down and bring back another recommendation as quickly as they can, even if it has to be communicated to us as members of the committee?

All I was asking for was a change in direction from the recommendations so that in the first few weeks, in the schedule we had already arranged, we would be dealing with that trade issue. The reading and the study we can do on it in the meantime are very useful, especially when we are coming back into the House early in February.

Maybe they could ask for a little advice and relook at the recommendation they are making to us and come back before we get locked into some recommendation that I do not think makes an awful lot of sense.

Mr. Chairman: Are you talking about the subcommittee doing that?

Mr. Mackenzie: That is exactly what I am suggesting.

Mr. Chairman: Mr. Mackenzie's argument is based on disagreeing with the subcommittee's suggestion that the budget be dealt with first and that the trade matter be dealt with second.

We did talk about the first week of March as a time to go to Washington, that being the week--February 29 through March 3--projected as the time that the trade bill, our bill, our agreement, will be introduced to the Congress and they will be giving it 15 minutes of their time.

Mr. Neumann: You have the week of March 7 here.

Mr. Chairman: That would be changed. The clerk determined that subsequent to the subcommittee meeting.

Mr. Neumann: I think I need some guidance from you, Mr. Chairman. Is what Mr. Mackenzie implied correct, that we would have difficulty getting witnesses on the days suggested by Mr. Pelissero?

Clerk of the Committee: I would think so, yes.

Mr. Neumann: I see the clerk nodding. If that is the case--and I would agree that the problem is we have three very important matters of considerable substance to deliberate on--perhaps we need to come back a week earlier in January than what is contemplated, rather the week of the 18th, the previous week, to spend some time on the free trade issue and try to get at least one additional session before we leave here at Christmas to explore as much as we can this question of to what extent can we actually influence the free trade agreement.

If the conclusion coming in is that we have very little area of leverage, then I would tend to agree that we should realistically be spending more of our time on tax reform and the budget process.

Mr. Chairman: I am going to try to cut this debate short. Mr. Nixon, and then I would like to have a vote on Mr. Pelissero's motion, unless you want to change it.

Mr. J. B. Nixon: I would just like to speak very quickly in support of the direction of Mr. Pelissero's motion. It may be that the exact dates are not suitable, but I agree that this is a very important issue and it is something that we should get on with as quickly as possible, and that means not waiting until February. Let us do it now and then we can continue with the same schedule put forward by the subcommittee, but set aside additional time in early January and this month.

Mr. Chairman: The clerk is pointing out that when the motion is passed, it still has to be approved by the House leaders. They seem to control everything, in the final analysis. They may bring us back to reality.

Mr. Pelissero: I am prepared to amend my original motion along the lines of what David was suggesting in terms of getting one session, possibly next Tuesday, on free trade. The final text will be out on free trade. Also I suggest looking at coming back before January 18, some time either the week of

January 5 or the week of January 11 and devoting one or two days in that time frame which would not impact on the prebudget and the tax reform process that was outlined by the subcommittee. I will leave the dates at your discretion, but specifically, January 15--

Mr. Mackenzie: Why not just leave it open.

Mr. Pelissero: Fair. I withdraw the original motion.

Mr. Chairman: All right. What are you saying now? You are withdrawing your motion and what?

Mr. Mackenzie: The subcommittee should take another whack at it as quickly as they can, about scheduling, and maybe have a word with the House leaders while they are at it would be useful.

Mr. Chairman: And the committee then endorses the conclusions of the subcommittee?

Mr. Mackenzie: I think you have to bring it back to us, but I suppose that is the implication.

Mr. Chairman: So we bring it back, hopefully, on Tuesday?

Mr. Ferraro: I think if the subcommittee, which is represented by all parties, is unanimous, then I am fully prepared to accept it. I think the point we are saying is that we need more time--at least motions are saying--before the fact than after the fact. I mean nobody wants to come in here on December 25. I am perfectly content if the subcommittee is unanimous, because I think it is important that all parties that we go with it, but the point is that as a committee I think it is incumbent upon us to stress to the House leaders that if we are really going to get serious about having a voice before the fact as well as after the fact, then we do need more time.

Mr. Chairman: From what I am hearing then, we will not have a vote on any proposal now, but rather we will have a subcommittee meeting as quickly as possible to come up with a proposal that we will take to the House leaders and, hopefully, have it resolved in the next couple of days.

Is that all right? Everyone happy?

Agreed to.

Mr. Neumann: If you do not get permission to meet Tuesday, we will not be back here until next Thursday and it will be too late to get it approved by anybody.

Mr. Chairman: If we do not get permission to meet on Tuesday, I have serious concerns about the future of this committee. Frankly, I have a very tough letter in that regard ready to go out, if we do not get that permission today. I say this on the record. I do not think the House leaders grasp yet the mandate that has been given by the Legislature to this committee.

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Mr. Lavelle, I appreciate your waiting. You seem to be enjoying a little bit our debate and our concern, which I know you share over the goings on in

other capitals today. The reason we have asked you to come here and Mr. Barrows and Mr. Wilkes is to discuss with us, if you can, the preparations I suppose that are going on inside government for dealing with this agreement and response to this agreement. We certainly understand that you have not been briefed on the final text. We perhaps could have asked Mr. Brandt to come, but we thought perhaps we would ask you in any event.

You have not been briefed on the final text and we understand that your comments will have to be somewhat guarded in that regard, but we did hear from Professor Russell earlier this morning to the effect that there may be a lot of power that perhaps it has taken us a while to grasp in the federal government to force us to implement parts of the treaty.

I will leave it at that. You may have some opening comments that you wish to make and then I am sure there will be lots of questions.

Mr. Lavelle: As you pointed out, I do have with me David Barrows, who is the director of trade policy for the Ministry of Industry, Trade and Technology. I thought it might be useful for me to make a few opening remarks just to give you some sense of where we think we are in terms of the final agreement and some of the things we are looking at with respect to the questions that you raised, specifically having to do where the province stands with respect to the implementation of the agreement in areas regulated and designated to the provinces.

As we are all aware, on October 3, Canada and the United States did sign a free trade agreement and released a preliminary transcript of the agreement entitled, The Elements of the Agreement.

Canada and the US must formally sign the agreement by January 2 to be given consideration for the fast-track approach. To date, the only formal documentation available for analysis has been the approximately 35-page document called The Elements of the Agreement. We are now informed that we will receive the legal text of the agreement tomorrow as there was some delays in Ottawa yesterday having to do with weather conditions, or whatever.

The expectation is that the document will be tabled in the House of Commons tomorrow after question period, which will be perhaps at 12 o'clock. At that time, we would expect to be in receipt of a copy of the final agreement delivered to the Minister of Industry, Trade and Technology (Mr. Kwinter), the Premier (Mr. Peterson) and to Mr. Latimer, who is the trade policy adviser to the Premier on this issue.

The federal government has convened a meeting of the Continuing Committee on Trade Negotiations to deal with the final text, which is now scheduled for Saturday morning. Mr. Latimer and myself will be attending that meeting in Ottawa. We then anticipate a meeting of first ministers will take place on Thursday, December 17.

What is clear from this is that the public in Canada and the United States will have a fairly limited period of time to review the legal text prior to the signing by the President and the Prime Minister on January 2. After the President and the Prime Minister enter into the agreement, it is then submitted to the US Congress for fast-track approval.

Present indications suggest that senior congressional officials are not prepared to begin the review of the legislation to implement the agreement

until June 1, 1988. If this is the case, then the full fast-track review period of 90 working days would not result in formal congressional approval before the fall of 1988.

We are basing that statement on the fact that we have received a copy of a letter from Mr. Rostenkowski and Lloyd Bentsen, which was sent to Mr. Baker, the Secretary of the Treasury, and to Mr. Yeutter on December 3.

I quote from the letter: "With respect to the Canada free trade agreement, however, the issue now is what type of procedures we will follow after the agreement is signed. In this regard, we must point out that the congressional schedule next year makes it unlikely that we will be able to complete action on a draft implementation bill before June 1, 1988. We therefore propose that the administration not submit a bill to implement the FTA under expedited procedures earlier than June 1, 1988."

They do leave it open, in the body of the paragraph, that if circumstances permit earlier action, we will, with mutual agreement, move up the date for introduction. However, there does appear to be some question about precisely when they will deal with that particular piece of legislation.

In Canada, the implementation procedures would require the passage of appropriate legislation at both the federal and the provincial level. In the absence of the agreement and the proposed federal implementing legislation, it is difficult for us to make definitive statements with respect to provincial powers.

The Ministry of the Attorney General is currently conducting what is called a constitutional audit to assess the potential impacts of the agreement on areas of provincial responsibility. The provincial audit that is under way has been going on for some time and it is a complicated issue, as you can appreciate. I think it would be more appropriate for somebody from the Attorney General's ministry to speak to that process. However, it is possible to identify a number of areas where provinces may have jurisdictional responsibility until we have determined what is in the final text.

First of concern are those areas which are under provincial jurisdiction and which are immediately affected by the agreement. All of us are aware of the implications of the contents of this agreement with respect to alcoholic beverages: beer, wine and liquor. As well, there are a number of areas of provincial responsibility where current practices are grandfathered under the agreement. This would include many of the service areas. Of concern to Ontario are the special provisions of the agreement which delineate how and under which conditions existing legislation and regulations can and will be augmented in the future.

As well, we will want to examine the dispute resolution procedures in this area because they are expected in any event to have an impact on that. In a broader context, we are also examining how the agreement might lead to fundamental restructuring of trade and commerce roles and between the federal government and the provinces. As part of this review, the province will undertake an assessment of its constitutional and other powers with respect to federal authority in those areas.

As you are aware, the government of Ontario has expressed a number of concerns with the Canada-US free trade agreement initiated on October 3. The agreement, as has been stated, would have serious consequences for the continuing operations of the automotive agreement. The elimination of tariffs

would substantially eliminate the mechanisms to enforce the production safeguards that are basically at its core. The agreement would also deny offshore auto makers the ability to become members of the auto pact, thus discouraging new investments from outside the hemisphere and the new technologies that may be associated with those investments.

I should point out, as it was not in the press this morning, that the Automotive Parts Manufacturers' Association of Canada, an organization I had some association with in the distant past, did publicly indicate yesterday that it does not support the final terms and conditions of the agreement, having to do with the fact that it would appear the 50 per cent direct cost of processing has been agreed to, as opposed to a higher level which the parts industry was seeking.

On investment, the agreement gives up the right to review all but the very largest direct deals. As a result, Canada could deny itself a role in shaping important investment decisions. This has to do, of course, with raising the level of scrutiny on investments and the ability to scrutinize only the largest of the deals that would exist under the existing legislation, which has been grandfathered.

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On energy resources, the agreement denies us the ability to pursue an independent energy policy. A vital tool for regional development is placed in some doubt, and the United States has been given guarantees on access to Canadian energy supplies in times of shortage. However, there is speculation that some arrangements have been made under the new agreement--the agreement that has been signed as of yesterday--that certain provisions with respect to energy have been changed. Of course, we will have to wait and see what those are.

In the agricultural sector, the arrangement would create a number of adjustment problems for both farmers and food processors. While agricultural marketing boards would remain, tariffs on both fresh and processed agricultural goods would disappear. That would put substantial pressure on prices and supply mechanisms, as Canadian food processors are forced to source from the low-cost supplier. Of course, the tariff elimination as an aspect of the deal has broader across-the-board implications. Again, in this area of the arrangement, there are indications that there have been changes, but until we see the final text it is hard to specify what those are.

The agreement would bring tariffs down, of course, on both sides of the border simultaneously, and Canadian tariffs are generally higher, as we all know, than those in the United States. As a result, bringing them down on an equal rate would create a greater adjustment burden for Canadian firms compared to those in the United States. There is also an indication that the fact that there will be a phasing-in of certain tariff reductions will cause difficulty to some existing firms in Canada, as presumably there may be the same implication in the United States.

The removal of tariffs in a free trade agreement would remove some of the incentives for multinational firms to maintain their Canadian plant locations. They would no longer need them to service the Canadian market and might find it more profitable to relocate in the United States. Again, the whole question of what the environment will be for investment is very much something that we will be examining in the course of examining the final text.

Of course, the whole question of the dispute settlement mechanism has been raised and there is every indication that during the final process of looking at the agreement there were changes in the process having to do with the kinds of representatives from both countries who would be on those panels and what would occur in the event that one of the panellists was considered to have a conflict of interest or some other impairment that would force some body to be established that would be referred to even beyond the panel process. The whole question of the dispute settlement mechanism, which is a highly legalistic arrangement, is going to be a key part of the final agreement.

I do not think it would serve much purpose for me to go any further into any of the other aspects of the deal, other than to say that in the course of the preparation for receiving the final text, obviously the government is deeply involved in ensuring that it would have an analysis of it as quickly as possible. We will be examining the text over the weekend as soon as we get it. I leave it with you that if you would like us to come back at some future date to provide that kind of information, either in camera or in a public session, we would be pleased to do that.

Mr. Chairman: Thank you very much, Mr. Lavelle. I should inform you that we have had some contact with the Ministry of the Attorney General. They would like three weeks, subsequent to seeing the final agreement, before being able to delineate it. I think that is understandable. We are aware that they are looking particularly at wine and distilled spirits, energy services, financial services, investment and temporary entry for business purposes and the extent to which the agreement will have an impact on existing and future provincial legislation. I am sure they are working in conjunction with your own ministry in that area.

Mr. Lavelle: Yes.

Mr. Chairman: Mr. Mackenzie has a question.

Mr. Mackenzie: It may not be totally fair to ask you--and the chairman just referred to it--but do you have any idea as to the time frame for that study of the inventory of areas that might be Ontario's jurisdiction that is going on in the Attorney General's ministry? When will it be available for members of this committee or other interested parties?

Mr. Lavelle: Mr. Mackenzie, I would not want to put any time line on it in so far as the Attorney General is concerned. I think that some preliminary work has been done, but when they would expect to have that final report I really do not know. I assume they would be working on it with some degree of haste.

Mr. Mackenzie: In the absence of that report, then, my other question to you is, what is the ministry doing, or what is the government doing, or within your responsibilities what are we doing in terms of any specific action plan?

I take it that the only action we are going to be able to take is where we find we have, and if indeed we have, any provincial rights or jurisdiction in terms of what has to be ratified in the agreement. To what extent are we planning to take what specific actions, or is that all in the realm of, "We gotta know an awful lot more at this stage of the game"? There seems to be that approach to date, quite frankly.

Mr. Lavelle: I would have to say that what action the government would take would be based on what would be in the final agreement and on the analysis it receives from its officials, then making those kinds of decisions at that time.

Mr. Mackenzie: In other words, there is no positive action plan at all at the moment?

Mr. Lavelle: "Action plan" is a difficult term to delineate. In terms of trying to determine what is in the final text and making sure our analysis is correct, that is the job we have to do, as public servants.

Mr. J. B. Nixon: Mr. Lavelle, could you comment--perhaps you cannot, but could you if you are able to--on the interplay between the General Agreement on Tariffs and Trade negotiations and the free trade agreement, or the impact the FTA would have on our position in the GATT negotiations?

Mr. Lavelle: Again, Mr. Nixon, I think it is unclear. Obviously, there is a general philosophical response that in terms of what a bilateral deal ultimately does in the context of the GATT negotiations, it can be looked at in both ways.

Some have indicated that it is a decisive factor in trying to move the current Uruguay round off dead centre in terms of trying to provide an impetus for other countries to seek or to try to achieve certain arrangements in trade with the United States or with Canada. Others say that negotiating a bilateral deal between Canada and the United States really does damage the multilateral trading system.

I think that you have to take a look at it in whichever way you want to, but it is hard for me to make a definitive statement on that. Certainly in so far as the negotiations on the question of alcoholic beverages are concerned, the question of how that is going to be determined in the GATT has been put off until after the signing of the agreement. There is some relationship there, but it is not closely drawn at this point in time.

Mr. Ferraro: Mr. Lavelle, I have two questions. It was my impression that the October 3 or October 2 FTA was basically--if I understand correctly, at that time they were going to dot some i's and cross some t's and it appears now--we will know better in a couple of days--they have made some significant changes. Was that your understanding at the time, or did you realize they were going to make this type of hypothetical adjustment we are hearing about?

Mr. Lavelle: No. When we went to Ottawa on October 3 or 4 and were briefed by the officials on the elements of the agreement, the indication was that basically the negotiations had been completed and that what would come would be a legal text, taking this and putting it into the legal jargon.

What appears to have happened in the interim is that there have been some substantial negotiations on major points and, of course, some eliminations of items in the text, according to the newspapers, that were in the original elements. So one would have to categorize those as negotiations and substantial changes.

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Mr. Ferraro: As a derivative of the first question, would you comment on the degree of consultation, as promised by the Prime Minister, between the provinces before October 3 and after October 3?

Mr. Lavelle: In terms of the consultations that took place before the agreement, there was an arrangement, there was an organization established called the Continuing Committee on Trade Negotiations, in which Mr. Latimer, the special trade adviser to the Premier (Mr. Peterson), was the designate of the Ontario government.

There were a number of meetings stretching over the prior two years. I would not say that those involved us in any deep negotiations between the province and the federal government. We were involved in being informed of what was going on, in that manner. Since October 4, there have been no meetings of the CCTN and there have been no formal discussions between the governments on any of these issues.

Mr. Ferraro: The last question I have, Mr. Chairman: I want to zero in on the auto pact, which Mr. Lavelle is quite familiar with. I have been reading--did you know the auto pact can be cancelled by either side with one year's notice?

If my assumption is right that the real strength behind the auto pact--and this may be my problem--was the fact that a tariff could be applied if the agreement was not adhered to, if that was the strength and now we have, at least according to preliminary reports, no tariffs after a period of time, why the hell is everybody arguing now whether there should be 50 per cent or 60 per cent content, if indeed the teeth of the auto pact are taken out?

Mr. Lavelle: The auto pact has a number of features to it. First of all, the duty free entry arrangement for parts and vehicles between Canada and the United States was based on the assumption that tariffs would be applied if a company operating in Canada did not meet the safeguards in the agreement, the content which was 60 per cent Canadian content and the production-to-sales ratio of one for one: one vehicle sold for one vehicle produced.

In the past, there have been violations of this in which the government has not necessarily applied the tariffs, but other concessions have been forthcoming from the companies in terms of investment or other arrangements which have overcome the deficit.

What has occurred now is that the tariffs are going to be phased out over 10 years unless there are changes in the final text. That would mean that the safeguard provisions will be eliminated at the same time. What is going to replace the 60 per cent Canadian content provision is a 50 per cent direct cost of processing, based on a North American content provision.

So, in a sense, where Canadian parts were specified at one time, or Canadian content, which could be parts or labour or overhead, it will now be based on a North American requirement which, in fairness, is a tighter constraint, a direct cost to processing as opposed to a Canadian content, but the specification of Canadian is a very important difference in the calculation.

Also, of course, the safeguards will be--in a famous word which I hesitate to use before the committee, but I will--rendered nugatory on the basis that they will not exist and therefore will not have the force of maintaining production in Canada by the car companies.

Mr. Ferraro: Which prompts my question, though, if in fact they are nugatory.

Mr. Lavelle: That is somebody else's word. I hope it means what I think it does.

Mr. Ferraro: I am not sure I know what it means but I will use it anyway. Then what is the point of arguing whether you have 50 per cent or 60 per cent, or am I in a cloud?

Mr. Lavelle: No, I think you are correct. The point is you have to go back to the basic argument surrounding the auto pact and the position that Mr. Reisman himself took before the negotiations commenced, that he did not feel that the safeguards in the auto pact were useful. The words that I recall most clearly were that they were "hollow reeds."

The negotiations presumably went forward on the basis that the safeguards were no longer of value in terms of maintaining an automotive industry in Canada, because of the competitive nature of the Canadian environment

Mr. Ferraro: Is he right?

Mr. Lavelle: Personally, I do not agree with him.

Mr. Ferraro: He is wrong then. You said yourself they have never used the safeguards, that they have negotiated before they have got to that point.

Mr. Lavelle: I did not say they did not use the safeguards. I said that the tariff remission part of the safeguards has been used on a number of occasions. I said "a few occasions." To put all the points together, I would have to go back and search my memory. For instance, when Ford or Chrysler has made major investments over the past five or six years, they have been as a result of indebtedness they had to the federal government on the basis that they were not meeting the safeguard provisions of the agreement.

Mr. Ferraro: There was leverage.

Mr. Lavelle: There was leverage. The safeguards were used as well when American Motors Corp. was negotiating to put a plant in Brampton. They had to meet the commitments of the Canada-US automotive agreement. Those have been extended to the plant now that it is part of the Chrysler operation. So they were there.

Mr. Chairman: The fact of the matter is, and I think we sometimes lose sight of it, that even with the free trade agreement, if a car crosses the border without the requisite 50 per cent North American content and is not within the auto pact, it will be subject to the tariff. Is that not right?

Mr. Lavelle: That is right. There is a provision in the agreement now which says that any car going from Canada to the United States under the agreement has to have 50 per cent North American content. The argument the parts industry was involved in was to try to increase that level from 50 per cent to 60 per cent--they started off at an 80 per cent level--in order to ensure by virtue of the arrangement that there would be a Canadian component in that agreement. They have apparently lost that argument.

Mr. Chairman: That extra 10 per cent, though, would not ensure a Canadian component.

Mr. Lavelle: No.

Mr. Chairman: From your experience, would it give any more likelihood of a Canadian component?

Mr. Lavelle: I think one would have to say in all fairness that the higher the level of North American content, the greater the chances are that there would be Canadian content within that level, but certainly under an agreement in which there is no specific requirement for Canadian content, one could assume that there would not have to be any.

Mr. Chairman: It is mere chance.

Mr. Lavelle: Mere chance. Just to carry it a little further, in so far as the Japanese are concerned, Honda has been a supporter of the 50 per cent requirement because it feels it can make that requirement on a North American basis in the United States and ship its cars to Canada duty-free.

Mr. Chairman: You see that as a trend that is coming with both Honda and Toyota, I presume.

Mr. Lavelle: Certainly we hope not, but it is a possibility that exists.

Mr. Chairman: I have a couple of supplementaries and I know Mr. Haggerty has a supplementary. The words that are being used in the elements of the agreement are "North American." From your experience with the auto industry, is there some danger that one of the Big Three, which all have extensive activities in Mexico, might well try to include Mexican parts in the definition of "North American"?

Mr. Lavelle: There are new rules of origin that will apply. I would take the argument that was put forward by the federal government, by Mr. Ritchie, when that question was asked with respect to the article in the Globe and Mail about manufactured goods coming in under the agreement. I would have to see how that is specified to ensure that would not be the case.

Mr. Chairman: Dealing with the question by the member for York Mills (Mr. J. B. Nixon) and the relationship with the General Agreement on Tariffs and Trade, is there some danger that the Japanese auto industry, being stung by this agreement, might challenge Canada before GATT?

Mr. Lavelle: We have had some discussions with the Japanese auto companies. As you know, they are not always totally forthcoming as to what their plans may or may not be. There is no question they are concerned about the implications for them under the agreement and what their investment plans may or may not be and whether they will ever be able to participate in the agreement on an equal basis with the North American producers. They have raised the possibility of a GATT challenge, but at this point in time I think it is too soon to tell what they may or may not do. Certainly, on the basis of discrimination, they may have a case.

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Mr. Chairman: I thought I saw an article in one of yesterday's newspapers quoting your minister as saying Toyota had made the decision not to go through with some of its initial investment plans in Cambridge.

Mr. Lavelle: I do not believe that is the case. I think what the minister was saying was that as a result of the agreement and trying to examine the final text, they were considering what their investment plans may be in the future. I do not think they have made any final decisions yet.

Mr. Haggerty: In your opening comments, Mr. Lavelle, you mentioned that the auto parts industry here in Ontario and Canada is not too happy, looking at the present document before them and without knowing the full contents of it. I was interested in the "Elements of the Agreement," on page 4. It says, "Canada has agreed that no additional companies producing vehicles in Canada may qualify as eligible manufacturers under provisions similar to those in the auto pact. The United States undertakes not to introduce comparable programs without consultations."

As I read that document, it is a one way street for the United States. They are going to do what they want to do with that. The negotiators for Canada have already made an agreement that we will not have any more auto parts located here in Canada or even in Ontario. Canada has agreed that no additional companies producing vehicles in Canada may qualify.

Mr. Lavelle: I think what that means, Mr. Haggerty, is that the arrangement they have entered into is that the auto pact as it is constituted presently will apply only to the present membership. In other words, the companies that are in the agreement as of the date of implementation of the agreement will qualify for the special status under that agreement.

Mr. Haggerty: That applies to Canada. It says "no additional companies producing vehicles in Canada may qualify."

Mr. Lavelle: Right.

Mr. Haggerty: But the bottom sentence says, "The United States undertakes not to introduce comparable programs without consultations." They are saying, "You cannot do it here in Canada, but we can if we tell you what we are going to do on the American side." That leads me to look at the fast track and the bill that is now before Congress in the Senate, which I guess will be heading for the President's official office some time shortly. If one reads that document the way I read it, regardless of what we sign in this agreement with the United States, the President still has the clout to say, "I will do it my way." Am I correct in that?

Mr. Lavelle: I think what you are saying, Mr. Haggerty, is essentially correct in so far as the powers of the President of the United States are concerned, the powers he has under the trade laws--

Mr. Haggerty: He can overrule anything in that agreement.

Mr. Lavelle: --to continue to exercise those powers as he has before the agreement was signed.

Mr. Haggerty: It really is an unfair agreement then. We can still have one party who can say: "I have the clout. You do as I tell you." That is the way I sum the agreement up today. Maybe that is a question that may be raised at Uruguay in the GATT negotiations in that area.

Mr. Lavelle: It is quite possible that will be raised.

Mr. Mackenzie: Following through on one of the last questions the

chairman asked you. Do you have any further comments on the so-called Mexican connection and what the possible implications of production down there might mean in terms of Ontario?

Mr. Lavelle: There is a letter that was written. I think in terms of what was going on already in the automotive industry, Mexico had become a threat to the Canadian industry in any event before these negotiations took place. As you know, there is a sector along the border in the United States on the Rio Grande where companies, American and some Canadian companies, have established assembly facilities under a duty drawback arrangement. They go there and ship the products back to the United States.

Mr. Haggerty: Trico is one of them, is it not?

Mr. Lavelle: Yes, that could be one of them. According to the letter Mr. Ritchie sent to Mr. Winegard, the chairman of the federal committee studying the auto pact, the question is whether the rules of origin have been changed or at least amended so that there cannot be a high degree or a large amount of Mexican product utilized as North American content. Whatever that arrangement is, we will have to see. Presumably they have upped the requirement in terms of US and Canadian content, but I do not know.

Mr. Chairman: Are there any other questions? Thank you very much. We appreciate your coming on such short notice. It has helped to enlighten us. I hope we can feel free to call on you from time to time. I am sure in the next several weeks we are going to need your assistance again.

Mr. Lavelle: We will be happy to help however we can.

ORGANIZATION

Mr. Chairman: Getting back to some of the housekeeping activities, I wonder if we could take a look at the budget. You have copies of it in front of you. It makes certain presumptions that may not be accurate in the final analysis, but I think the important thing at this stage is to get something passed so that we can then take this before the Board of Internal Economy. Right now, we are even buying coffee on borrowed money, I suppose. The clerk of the committee wants to clarify a couple of things.

Clerk of the Committee: Mr. Mackenzie, you will notice on the second page, I have looked at the expenditure for the witnesses and I have made that adjustment to \$6,000. There is also the addition of JO Associates. They are the consulting firm that assisted us in our Washington trip, and there are funds for one week in Washington.

Mr. Mackenzie: As far as I am concerned, you have met the concerns some of us expressed last time and my own feeling is that the budget is probably ready to go to the House leaders.

Mr. Chairman: Any other discussion?

Mr. Haggerty: Are you talking about a week in Washington?

Clerk of the Committee: One week in Washington.

Mr. Haggerty: One week? Is there any guarantee we are not going to lose our luggage?

Clerk of the Committee: We will try.

Mr. Haggerty: You will try to lose it, will you?

We are talking about one week. Are we looking at five working days or four working days?

Clerk of the Committee: We are looking at leaving on Sunday and having three full days and coming back on the Thursday. It would be two travelling days and three--

Mr. Haggerty: The last time we had a rather busy schedule and did not have much time to even sit down and have a decent meal out of it. I was just wondering--we are not going down and wrecking ourselves. There were mornings when we got up and members never even had time. Some of the places were not open for serving breakfast at seven o'clock or 7:30 in the morning.

Clerk of the Committee: With that in mind, the chairman has asked me to call Washington to find the best times we could use and what was the best way. The suggestion was made that we should try to get our meetings for an hour, if we are with politicians, and for staff an hour and a half. We should try to focus meetings in specific areas. If you wish to do a sectoral, you should do so, but to try to keep everything in focus so that the consultant can arrange for best utilization of our time.

Mr. Haggerty: It was well used the last time but the day was hectic. We did a lot of moving.

Mr. Chairman: But we did not have a full week last time.

Clerk of the Committee: We had only two days.

Mr. Haggerty: That is what I am saying. Are you going to allow us more time, instead of 10 or 20 minutes here and there, with different ones.

Mr. Chairman: When you look at the calendar, Mr. Haggerty, you will see that we do not have a lot of weeks to do a lot of things. There has, for instance, been some discussion about spending more time looking at trade alternatives and looking at GATT and what we should be doing in that area. I presume we still want to have budget hearings and so on. I do not think it is terribly realistic to suggest that we could have more than a week in Washington in view of the calendar.

Mr. Haggerty: I do not see Uruguay on here.

Mr. Chairman: Uruguay is not on there, but I have heard about it in private discussions. I guess it would more likely be Geneva during skiing season.

What I am looking for is a motion to adopt this budget, if we may.

Mr. McCague moves the adoption of the budget.

Any other questions? Any other discussions? Ready for a vote?

Motion agreed to.

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Mr. Chairman: In view of earlier discussions, the clerk has prepared a number of draft advertisements to go into newspapers across the province concerning the prebudget and tax reform discussions. You have these in front of you. Maybe the clerk can explain the differences. It includes the actual advertisement that was placed last year, I recall, after some discussion. It is obvious that again this year we are going to have to receive written submissions and have the research people take them apart and summarize them. We are going to have to have a subcommittee decide which of those submissions we actually want to hear. I do not think we are going to have time to hear from everyone. Mr. McLellan has asked that the advertisement include a suggestion that there be an executive summary.

Interjection.

Mr. Chairman: Oh, I am sorry. We are not going to do that. Why are we not going to do that?

Clerk of the Committee: If I can clarify, the executive summary is a good idea, but unfortunately when we advertise, as you notice, we will state "individual groups and organizations." Individuals and small organizations do not have the resources to have executive summaries. That is what we have found. Usually, the organizations just send it anyway, the executive summary. We find that individuals ask us why they have to have an executive summary.

Mr. Chairman: Could we not just request it? It does not have to be a hard and fast rule.

Clerk of the Committee: If you wish.

Mr. Chairman: I think it would be of assistance if we get a 20- or 30-page brief, rather than having research go through it and summarize it and perhaps not find the kernel they want us to see. Possibly it may happen that members will not read all 30 pages.

Mr. Mackenzie: You can be sure they will not.

Mr. Chairman: Yes. I am being a little facetious. We are very dependent on research. I think what Mr. McLellan was saying is that putting an onus on him to find that kernel of truth on page 12 that he might miss--if they could put that in a one- or two-page summary on the front page, it would assist us. I do not think we have to order them to.

Mr. Mackenzie: I think that has been the practice in the past and it certainly has been useful in many of the presentations we have had. I would be prepared to accept that if the summary is necessary, we will get it.

Mr. Chairman: Maybe the clerk could tell us what these five examples mean and why we should be looking at all five.

Clerk of the Committee: I was not sure what the committee wanted, if it wanted advertising for three of the subjects together or two together or one together, so I made advertising for all eventualities. If you look at number three, which has a number at the bottom, it is very similar to the advertising of last year, which has only prebudget consultation. We can add to that the tax reform, which is on number four. Also keep in mind that the

larger the ad, the more it will cost. Perhaps you will look at numbers three and four and give me an opinion on that.

Mr. Chairman: You may recall that the clerk was not here last week. Mr. Decker wrote him a memo indicating that we wanted free trade included. That was not my understanding of the discussion and I suggest to you that free trade will be a different issue. We will, I presume, next week receive a resolution from the House to deal with free trade. I think it would confuse the issue if we had a number of submissions on free trade when we were trying to concentrate on the budget, so we should be looking at four.

Mr. Haggerty: But in the area of the proposed federal tax changes, it may have a bearing upon free trade.

Mr. Chairman: There is no doubt it will have a bearing on it, Mr. Haggerty. They can mention free trade, just as free trade is mentioned in the Treasury documents. But we are not inviting people; we are not flagging that issue. If we put free trade in the advertisement, I rather expect we are going to have a lot of people writing about the basic debate of free trade, which really is not the purpose of the budget hearings. It is one of a number of issues that will be considered.

Mr. McCague: In view of the discussion this morning, I think we should do the triple one, which is probably number 1, with some clarification. You somehow have to work in--at least, I think you would--the point that you have to put in a brief before you can be considered for an oral presentation. That is not too clear in that particular one. If you happen to adopt some of the words in some of the others, you have--

Clerk of the committee: If you look at number 4, the last sentence, it says exactly what you have in mind.

Mr. McCague: Except I think you should have "ing" on "hear," should you not?

Clerk of the committee: Sorry?

Mr. McCague: "Hearing" instead of "hear".

Clerk of the committee: Hearings. OK.

Mr. McCague: Hearing.

Mr. Chairman: Your argument is that we should be talking free trade and we should flag that term?

Mr. McCague: That we should do it like the first ad: prebudget consultation, tax reform and free trade.

Mr. Chairman: I was expecting that when we get the resolution, we will then have a separate set of hearings. We may be requested by the Legislature to have a separate set of hearings on that, I do not know. On the other hand, I suppose--

Mr. McCague: My point was not that. This really does not say what you are going to do once you get them.

Mr. Chairman: No.

Mr. McCague: All it says is that you invite them, you invite them by January 15 and they are on any one of the three subjects.

Mr. Mackenzie: I have some disagreement with my colleague on that. I think that in terms of the advertisements, you are dealing with the prebudget consultation and the tax reform issues. That is what you are inviting. You are looking for some new approaches. You are inviting hearings on those.

It seems to me that we are dealing with almost a fait accompli once we get the document on the free trade issue and that when we are holding hearings or looking at that is when we want to invite people in. I do not think we want the general public, because I can see a rehash of literally hundreds of briefs we have had from all major organizations at least twice around now in this province. That is not what we want. What we are looking at now is the specifics of the deal, and there I think we have to try to find ourselves the experts, if any exist, to go over the summary that our own research people will give us--that particular document.

I think you are dealing with a different thing altogether. If they want to expand those--and I do not think we have the time frame to do it into further hearings; that is another matter--but it seems to me the advertisements we need to get out deal with the other two issues. We know what we have to take a look at in terms of the trade document we will finally have.

I have no difficulty with the ad or with the time frame on it except that if the decision is made whether we start a week earlier or not, you should switch the two weeks currently scheduled for prebudget or the other consultation with free trade. If that argument carries the day--and it may not after you have talked to the House leaders and reschedule things--you might have an extra week for receipt of briefs on the other matters.

I just simply raise that. I am not necessarily suggesting the change, but I suspect that instead of January 15 or 17 or whatever you have down, you might be able to allow another week. But you could not do that if you want to get them in right away unless we get a quick decision on whether or not we are to change our priorities slightly.

I want to make it clear that when I was arguing earlier, I was arguing only in terms of whether I was totally in agreement with this recommendation or not; that we simply had to reverse the emphasis to free trade in the first two weeks.

Getting into all those other days, I have no difficulty with even moving it up a week if they decide to do that, because I do not think we are trying to beat the signing date on January 2. What we are trying to do, especially going back into the House in February and that being the major issue, is that we simply have to deal with that now.

I have no difficulty if it goes with the time frames that are in it now. I am simply saying you might have an extra week which might be useful if there is a change of schedule and I do think the only thing you ask for submissions on is the prebudget and the tax reform. We are looking at the specific agreement now, and we call the experts in, we just do not want the general public coming in delegations on that issue.

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Mr. Chairman: Mr. Nixon, did you have a comment?

Mr. J. B. Nixon: No.

Mr. McCague: I have no trouble agreeing with Mr. Mackenzie. I thought, though, that we were to conduct the public hearings on free trade, but if that is not part of our mandate, great. I think it is much more valuable that this committee is able to decide who our witnesses should be and have them in, in their particular field. I agree 100 per cent with that, if that follows the intent of what we are to do.

Mr. Chairman: I am wondering if we could have a motion, perhaps to--before I do that, perhaps Mr. Carrozza could explain the difference between 4 and 5. Would 5 be more appropriate than 4?

Clerk of the Committee: Five has the exact document presented by the Treasurer (Mr. Nixon), advising the public that there is that document, which is this here, and it can have a look at it. It is exactly the same as last year. The advertising is very similar to that, which is on the last page.

Mr. Chairman: Is there any reason to take that paragraph out? It seemed that last time a number of the briefs did focus on that document. Obviously, they got hold of it, and it helped us, I think.

Clerk of the Committee: If you wish, we could combine--

Mr. Mackenzie: It might even help to narrow or direct their view of it in terms of what--

Clerk of the Committee: We can have it in 4, in the first and second paragraphs, and the third paragraph in 5, if that is what you wish.

Mr. Chairman: Yes.

Mr. Mackenzie: Yes, I would be inclined to say that.

Mr. Chairman: I would be interested in receiving a motion to that effect. It may be that the motion would include adding a sentence to paragraph 2 in 4.

Clerk of the Committee: Four would be executive summaries.

Mr. Chairman: Asking--not demanding, but asking, where possible, for executive summaries. I am sure that those organizations used to appearing before legislative committees would pick up on that.

Mr. J. B. Nixon moves that we provide the notice from 4 and 5 would be as discussed, with the additional inclusion that the committee have notice of a request for an executive summary.

Any other discussion? All in favour? Opposed? Carried.

Motion agreed to.

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Any other discussion? All in favour? Opposed? Carried.

Motion agreed to.

Clerk of the Committee: Can you give me a date when you want the advertising?

Mr. Chairman: Yes, a date for placing. I recall that last year we were worried about putting it in the papers right at Christmastime because people tend not to read the papers. When would you like us to say?

Clerk of the Committee: If I may suggest, for the committee's consideration, we need a minimum of three days. Counting tomorrow, the earliest we could get it in would be December 15 or 16, next week.

Mr. Chairman: I do not see any problem with that. That is far enough away from Christmas, is it not?

Mr. Kozyra: Based on earlier discussion and concerns with the free trade debate and in connection with dates here, I would suggest that weeks two and three of January be devoted to that and then you could move this date here to January 22 to give you a little more time.

Mr. Chairman: You are talking about moving the date that is in this advertisement to January 22, which Mr. Mackenzie mentioned.

Mr. Kozyra: Allow that time and we can concentrate on the two weeks in the early part of January as meeting the concerns expressed.

Mr. Mackenzie: That depends, of course, on making the changes that were suggested earlier, which we do not know as yet.

Clerk of the Committee: There is no difficulty. This is on a word processor.

Mr. Chairman: Yes, but there is a little difficulty, supposing we passed a motion saying January 15, but--

Clerk of the Committee: Yes, it would be. The date of January 15 is going to be difficult for them to meet.

Mr. Mackenzie: That is another reason why I was thinking in my own mind that if they had another week, it might be useful.

Mr. Chairman: All right. The motion has been passed, but we probably should have considered that.

Mr. J. B. Nixon: I have a question. Where do the advertisements go? Which newspapers would you put it in?

Clerk of the Committee: The newspapers we use are from the agency of record and they traditionally, when we advertise, would be all the dailies of the province.

Mr. Haggerty: Do not forget this year we want Farm and Country, though. It hits the rural people. That only comes out every two weeks, but you have to give about three or four weeks' notice to get it in there.

Clerk of the Committee: It is going to be difficult if we run it on very short time.

Mr. Haggerty: Is there any way you can get it across some of the province's television programs on TVOntario?

Clerk of the Committee: We try to run the advertising on TVO.

Mr. Haggerty: Pardon?

Clerk of the Committee: On the television, TVOntario. The Legislature.

Mr. Haggerty: Yes, the one the government helps finance. You should be able to get it on there.

Clerk of the Committee: Yes, we do.

Mr. Chairman: We do? We will be?

Clerk of the Committee: Yes.

Mr. Chairman: Does that automatically happen?

Clerk of the Committee: We can ask.

Mr. Haggerty: I think it should be.

Mr. Chairman: Perhaps we should direct you to do that then.

Mr. Haggerty: That is right.

Mr. Chairman: Especially if it is free.

Clerk of the Committee: Yes, it is.

Mr. Chairman: Especially with the issue of tax reform being rather a generic issue. I am going to presume, because I am not hearing anything to the contrary, that Mr. Nixon's motion that we passed change from January 15 to January 22, just to get that clear.

Mr. McCague: Without presuming anything.

Mr. Chairman: Without presuming anything. Is there anything else we must discuss right now?

Clerk of the Committee: No.

Mr. Chairman: Okay. We need to have a subcommittee meeting soon. Unless someone else could chair it, I have another obligation at lunch hour.

Mr. McCague: What about after question period? Do you have time or not? We could try to get started on that.

Mr. Chairman: Yes. I think I could be here about four. Is that all right?

Mr. McCague: Four. What about the back room on the left side of the Legislature?

Mr. Chairman: All right. In the west lobby?

Mr. McCague: Yes. There is a room at the back of that.

Mr. Chairman: The room at the back of the west lobby.

Mr. Haggerty: There is just one other point. This is one of the most important committees in the Legislature and very few people in the public are aware of what we are doing. It is too bad we could not get the blue room down there to get some television on this. You now have private members' bills on television, and this is perhaps more important. We are dealing with, really, the gut issues that are facing the province.

Mr. Chairman: We are engaged in some negotiations in that regard. Apparently there is a presumption that the standing committee on public accounts uses it.

Mr. Haggerty: They are in there today. I am talking about during our hearings.

Mr. Chairman: I know. I am going to actively pursue that, and so is the clerk, for next week.

Mr. Haggerty: I think they should spread it around.

Mr. Mackenzie: Somebody is going to pursue it.

Mr. Chairman: We are pursuing it for next week. Next week, do not forget, we are going to have a continuation of the constitutional matter. Please read this material. I remind you again that there are some excellent questions that you should be posing for Mr. McLellan, as well as for Mr. Fairley. He will be here to deal with his article. Hopefully, we can get into room 151.

In so far as Mr. Haggerty's question is concerned, we are negotiating with the select committee on constitutional reform, presuming that during the break our committee and that committee will be the two committees of major concern so that--

Mr. Haggerty: Do you mean Meech Lake?

Mr. Chairman: Yes--we will not be having our hearings the same weeks and, hopefully, we will have that room at that time.

The committee adjourned at 11:59 a.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

THURSDAY, DECEMBER 17, 1987

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Clerk: Carrozza, Franco

Staff:

Anderson, Anne, Research Officer, Legislative Research Service

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

Individual Presentations:

Fairley, Dr. H. Scott, Adjunct Professor of Law, University of Ottawa;
Constitutional Lawyer, Gowling and Henderson

Saywell, Dr. John T., Professor and Director of Graduate Program in History,
York University

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, December 17, 1987

The committee met at 10:05 a.m. in room 151.

TRADE WITH UNITED STATES

Mr. Chairman: I see a quorum. I welcome the television audience. This is the first meeting of this committee that has been in this room, in any event since television has been brought into the room. I think you are going to find it an exciting and viable committee. Your attention will be riveted to it, I am sure.

This morning we are looking at the issue of constitutionality as it concerns the free trade agreement that is about to be executed by the federal government. It is one that our predecessors looked at to a limited degree in the past, and obviously we are going to have to look at it much more carefully.

Our guest this morning is Dr. H. Scott Fairley, who is a practising lawyer and has written on constitutional matters, including a document that we have read, entitled Jurisdiction Over International Trade in Canada: The Constitutional Framework.

I might indicate that the predecessor to this committee, the select committee on economic affairs that did an investigation into free trade in 1985-86, initially had the view that the labour conventions case of 1937 was a case that gave us some authority to be concerned.

We have heard some views. That committee, which actually heard some views to the contrary, probably chose still to be interested in the labour conventions case, so we are interested in your argument, which I understand will somewhat temper that view. Dr. Fairley, perhaps you could proceed. I understand you would like to speak for about 20 minutes and then will entertain questions.

Dr. Fairley: Please cut me off if I go on at length. Law professors sometimes tend to do that.

I should say at the outset that I am here speaking in my personal capacity as a long-time student and some time teacher of constitutional law, and I am in no way representing the views of the firm with which I practise, nor necessarily any of our clients.

By way of introduction, I would like to make brief remarks on three areas: first, on the basic constitutional principles that give rise to the situation where provinces have an entitlement to assert a constitutional role in the field of foreign affairs; second, particular jurisdictional reference points in the federal division of powers that pertain to the free trade agreement which is being contemplated by the federal government; third, given the introduction or the release of the legal text of the FTA last week, remarks with respect to specific provisions of the free trade agreement, which appear to implicate provincial jurisdictional competence.

I will deal with the labour conventions case under the first portion of my submissions. What we have in Canada is a very uneasy adaptation of the British principle of parliamentary supremacy applied to a federal state with a written constitution. That has given rise to a good deal of difficulty and to particularly Canadian solutions to problems of federal-provincial relations. The result of this situation has been, in constitutional parliaments, the development of the notion of the so-called federal principle, which posits an exhaustive distribution of legislative power, that is, there is nothing government cannot do. It assigns that exhaustive power to exclusive spheres of jurisdiction, federal or provincial, demarcated for the most part in sections 91 and 92 of the Constitution Act, 1867.

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When you put those two ideas together, the conclusion is that if one level of government is found not to have the requisite authority, for example, to pass legislation implementing an international agreement, then by necessary implication, the other level of government must, in keeping with the principle of parliamentary supremacy. In theory, the powers of government are exhaustive.

The Charter of Rights has modified that since 1982, but we really do not have to worry about that in the context of the free trade agreement, except perhaps with respect to some of the dispute settlement procedures. Again, that does not implicate provincial jurisdictional authority.

When we come in particular to the power to implement treaties, the privy council found in the labour conventions case of 1937 that there is no category of jurisdiction on point. The one that was there in the original act, section 132 of the British North America Act of 1867, gave parliament plenary authority to implement treaties on behalf of the British Empire, but the provision was considered inapplicable to treaties entered into by Canada in its own right. Canada had been doing this for the few years previously since the Supreme Court of Canada decision, somewhere in the mid-1920s. That was when Canada gained international personality and conducted foreign affairs on its own behalf. That is when Canada became a fully sovereign state.

As a result of the labour conventions analysis, the Privy Council reasoned, in keeping with these principles of exclusiveness and exhaustiveness--and here I am quoting from the judgement--"for the purposes of section 91 and 92, that is, the distribution of legislative powers between the Dominion and the provinces"--I emphasize this next statement--"there is no such thing as treaty legislation as such. The distribution is based on classes of subjects, and as a treaty deals with a particular class of subjects, so will the legislative power of performing it be ascertained."

So your reference point is domestic. There is no foreign affairs power as such.

Lord Atkin goes on: "It follows from what has been said that no further legislative competence is obtained by the Dominion from its accession to international status." In other words, the Dominion cannot really, by making promises to foreign countries, clothe itself with legislative authority inconsistent with the Constitution which gave it birth.

Since 1937, the labour conventions case has been the whipping boy of most Anglo-Canadian constitutional scholars. It has also been obliquely undermined by subsequent judicial commentary, but nothing that has come to the point of overruling it.

My own view is that this authority can be transcended in a principled way. There is room in the existing Constitution without any further amendment for the recognition of a federal external affairs power. It may be that if push comes to shove between Ottawa and the provinces, the free trade agreement might just be the occasion for doing that. That remains to be seen.

Mr. Scott, the Attorney General of Ontario, appears to have thrown down the gauntlet in a speech to the corporate council and business law section of the Canadian Bar Association on Tuesday, December 15. It remains to be seen what the government of Ontario will decide to do if Ottawa goes ahead.

That brings us to the free trade agreement itself, for which we now have a legal text. The particular jurisdictional reference points which seem to be the most pertinent are on the federal side, since this is an agreement dealing with trade, the regulation of trade and commerce. It is purportedly an exclusive federal field under subsection 91(2) of the Constitution Act, 1867, and perhaps more broadly, but certainly more tentatively, the general power of the Dominion to enact laws for the peace, order and good government of the nation.

POGG power has a number of elements to it, for example, the judicially annotated recognition of particular federal subject matter like telecommunications, radio and so forth. The free trade agreement would clearly require something more and run smack dab into some existing constitutional authority which the Supreme Court of Canada might have trouble dealing with--the anti-inflation case in particular. But the general trade and commerce power is the novel one, and it seems to be enjoying something of a resurgence in the Supreme Court, especially under--not the rubric.

General trade and commerce divides into basic branches, one being interprovincial and foreign trade, that is, whenever goods cross a boundary. That is the obvious one to think of when you are talking about a free trade agreement; but the other one, the general regulatory power, which was recognized long ago by the Privy Council in a decision in the 1880s, but has been really neglected since then. It was resurrected in spades by Chief Justice Dickson in the Canadian National transportation case of 1984, interestingly enough in a separate concurring opinion.

There is another case before the Supreme Court of Canada, which is being argued early next year on appeal from the Federal Court, which essentially invites the court to pick up on what Chief Justice Dickson said in Canadian National transportation. I can certainly answer questions about that, if you would like.

On the provincial side, however, we have property and civil rights in the province, subsection 92(13), which encompasses local business, regulation of local trade and single industries, and can perhaps be best understood as the constitutional mandate for all provinces to legislate--and this is my own terminology here, not that of the court--peace, order and good government in the province. As a practical matter, that is what it has amounted to over time, an extremely broad jurisdictional mandate, which has been carved out as a result of restrictive interpretations on various provisions of section 91, that is, the federal side of the fence.

The other one, which is also obvious, is a general omnibus provision on matters of a local and private nature in the province. Mr. Scott, in his speech on Tuesday, also raised the issue of energy. I believe his reference point there was to section 92a of the Constitution Act, 1982. This did

reassert a provincial role in the development and conservation of natural resources, which, as a general matter, are under provincial jurisdiction in any event. However, the way section 92a is written, the arguments do go both ways, as I am sure you are aware. If you have any particular questions on that, I can certainly address them.

The third part of my submission is, what does the free trade agreement itself say and where do the provinces come in? I must say when I first read the text there was more there than I expected, and the language was stronger than I think a lot of people expected with respect to issues of provincial compliance.

The big one is in the first chapter of the agreement, objectives and scope, also referred to by Mr. Scott, "The parties to this agreement shall ensure that all necessary measures are taken in order to give effect to its provisions, including their observance, except as otherwise provided in this agreement"--that is certainly worth emphasis--"by state, provincial and local governments."

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Anything that implicates provincial jurisdiction that is not expressly accepted by the agreement is in it, and the federal government is assuming the international obligation to deliver. On the basis of the labour conventions case, if a province such as Ontario does not agree with particular terms of the agreement in areas that fall within its jurisdiction, then the argument goes, the province can go the other way.

What Ottawa is saying and what Mr. Mulroney is saying--here I am quoting again from Mr. Scott--97 per cent of the agreement is federal anyway, except for wine and liquor, and even there there is room to play around. So there are obviously two very different constitutional conceptions developing here of who controls what when we look at the actual subject matter of the agreement.

There is another provision in chapter 1, article 105, and this pervades--it comes back in various other chapters of the agreement. This states, "Each party shall, to the extent provided in this agreement, accord national treatment with respect to investment and to trade in goods and services."

This is an omnibus provision which essentially incorporates the General Agreement on Tariffs and Trade standards of national treatment into the agreement for a bilateral free trade area between Canada and the United States. National treatment provisions are recognized specifically in chapter 5, article 501, which specifically incorporates GATT article 3 except for the specific exceptions declared in the agreement. Then article 502 says:

"The provisions of this chapter regarding the treatment of like, directly competitive or substitutable goods shall mean, with respect to a province or state, treatment no less favourable than the most favourable treatment accorded by such province or state to any like, directly competitive or substitutable goods, as the case may be, of the party of which it forms a part."

That is GATT language again. Roughly translated, it means the best deal that is going in this province is the deal you have to give the United States. So if you want to look at the wine and liquor example, the sweetheart deal you

give Canadian wineries is the deal you have to give California wine. This does not apply because wine and distilled spirits are subject to a modified version of national treatment in chapter 8, so there are exceptions. Nevertheless, the agreement on that score is clearly speaking to what the provinces have to do or what the federal government says it is going to ensure the provinces will do.

I will jump right to chapter 8. That is the one everybody has been talking about, and the Peterson government has been on record very early on. There are loads of other areas now where provincial jurisdiction is being asserted, but wine and liquor is the one that the government of Ontario has felt confident about from the beginning, and there are a lot of good reasons for that, as I analysed in the article which you indicated you have all read.

However, it is a fuzzy and very strange arrangement that has grown up with respect to booze and the British North America Act because both Parliament and the provincial legislatures appear to have had a role to play in this area from the beginning and that shared field, if you will, was writ large and quite a celebrated case of the Privy Council in the 1890s. It is commonly known as the local prohibition case. The local prohibition case basically said that there was a provincial jurisdiction in the area at the local level--the regulation of a local business such as a tavern. Whether it was going to be a dry area or not, that is what the local option legislation was about. I think there are still dry areas in Toronto which date from that time.

In any event, there was a provincial field which could not be usurped on top of the federal field, which has been defined largely in terms of temperance, which is a peace, order and good government category as opposed to general trade and commerce.

Given that the evils of intemperance have relaxed somewhat, notwithstanding the reduce impaired driving everywhere program, what the federal government did quite some time ago was, essentially, withdraw from the field. They did that in 1928 with an amendment to the Importation of Intoxicating Liquors Act. The 1928 amendment is still with us in the statute books. What that does is confer a monopoly on all provincial governments or their designee. Now that is a monopoly with respect to importation.

Given existing constitutional authority established in previous cases, local pricing, distribution and marketing are provincial matters anyway. You combine that with the monopoly which Ottawa in its magnanimity has given to the provinces and you get, effectively, an area of exclusive provincial regulation, which is what we have in the Liquor Control Board of Ontario and the Liquor Licence Board of Ontario.

If Queen's Park decides to go to war with Ottawa, then one arrow in Ottawa's quiver, quite clearly, is stripping the monopoly. With the stroke of a pen, they can bring it down legally. Politics is not what I am speaking about here, and the result could possibly be horrendous, but it would really be a mess. Whether Ottawa can afford to do that politically or not, I suppose only it can know, but I think that is an element which is factoring into Mr. Mulroney's position that 97 per cent of the deal is his.

It is entirely unclear in the liquor area exactly what would happen, that is, what the province would have left. The province can obviously control pricing, distribution and resale, but there are a lot of wine agents in

Toronto who could set up tremendous businesses on direct sales of a transborder character.

The only point I want to stress here is that the situation is not clear on either side. It has been worked out co-operatively before, but if you take the issue to the court and the gloves are off, it is unclear how it is going to shake down. I think there are going to be serious costs on both sides.

Chapter 9, energy: The point Mr. Scott was making there is that the province has considerable powers in terms of controlling development of its own natural resources. In his speech he referred in particular to section 92a, which was a 1982 amendment to the Constitution Act which gave the province power to legislate exclusively in relation to the exploration for nonrenewable natural resources, development and conservation of nonrenewable natural resources and also the development, conservation and power to legislate exclusively in relation to the exploration for nonrenewable natural resources, development and conservation of nonrenewable natural resources and also the development, conservation and management of sites and facilities in the province for the generation and production of electrical energy.

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It also goes on and even gives the province power to make laws in relation to the export from the province to another part of Canada. That does not extend to exports outside the country. However, it certainly gives the province more authority than it had before, especially by virtue of two Supreme Court cases that were decided in the mid-1970s, which cut down provincial laws that were even regulating production and distribution in export markets. The two cases I am referring to are Canadian Industrial Gas and Oil and the Central Canada Potash cases, both of which were default wins by the federal government. What is interesting there, though, is that what the Supreme Court of Canada did was strike down provincial regulation. It did not uphold federal regulation. So there is a negative implication there as to provincial jurisdiction, not a positive conferral of jurisdiction.

The other thing to keep in mind here is that section 92a also provides that nothing in a previous subsection which talks about provincial legislatures making laws in relation to export derogates from the authority of parliament to enact laws in relation to the matters referred to in that subsection and where such a law of Parliament and a law of a province conflict, the law of Parliament prevails to the extent of the conflict.

Incidentally, that principle applies all the way down the line if you are talking about shared fields. As to the extent that federal and provincial powers overlap, provincial laws in the absence of a federal challenge stand, but if there is a conflict and the court finds that there is provincial jurisdiction on the provincial side of the fence--it is called the "aspects" doctrine--and there is also federal jurisdiction but there is an overlap and there is an area of conflict, always the federal statute will prevail.

However, the Supreme Court of Canada has been very conciliatory on that in recent years and the test for conflict they apply is quite a rigorous one. It has a very high threshold, so the emphasis has been, or the intent has been, in most cases to try to uphold both laws to the extent they can. But if there is a clear conflict and that is demonstrated to the satisfaction of the court, then the federal law clearly prevails.

There is not much in trade in automotive products.

Chapter 11, emergency action, is basically a reference to the General Agreement on Tariffs and Trade.

Chapter 12, exceptions for trade and goods: The only thing I will mention there is that the beer industry is grandfathered. That takes us back to chapter 8. However, the beer industry is only protected in terms of the regime that is in place or the existing measures, as the agreement refers to them, that were in place as of October 1, 1987.

Services, investment and temporary entry, chapter 14: I simply refer you to article 1402 which basically tracks the language of article 502 in chapter 5 on most favoured nation treatment with respect to services. I think Mr. Scott clearly has a point here. In the services sector--maybe not so much in terms of how the agreement is phrased now, but in terms of how it is likely to develop--it could conceivably reach quite a lot that is currently within provincial regulation.

Just a brief remark on chapter 17, financial services: I think it is instructive here, knowing the problems we are going to run into, that Canadian commitments with respect to an open market on financial institutions do not apply to provincially constituted financial institutions. That was just too big a problem to resolve, especially given the recent settlement between Ottawa and Queen's Park on the securities area, so they decided not to deal with it.

On dispute settlement, I have mentioned that there are a few constitutional problems. However, they do not implicate provincial jurisdiction per se.

That concludes my remarks. I apologize. I believe I went over a little.

Mr. Chairman: No, that is fine. I think you had everyone spellbound. Mr. Nixon has a question.

Mr. J. B. Nixon: Just following up on your last comment about dispute settlement mechanisms, is it not the case that the provinces are specifically excluded from participation in those dispute settlement mechanisms?

Dr. Fairley: I think it would be more fair to say that they are not included. But you are correct, there are no provisions for provincial status to make representations in the binational dispute settlement field. That is clearly the case.

Mr. Chairman: Yes.

Mr. J. B. Nixon: Following up in a slightly different area, given that this is still an unsigned treaty, when and how do you think the constitutionality of it will be litigated, if at all? When would be the first opportunity?

Dr. Fairley: When it would be litigated is up to the attorneys general. As a constitutional matter, they could take a reference case right now. They could do that. They could take the letter of this agreement and they could phrase certain questions and the Attorney General could submit the issue to the Ontario Court of Appeal under the Ontario reference statute. Ottawa could do the same under its reference statute, taking it to the Supreme Court

of Canada. Either way, it would get to the Supreme Court of Canada, either on an appeal from a provincial reference or, in the first instance, if it was a federal reference. Mr. Scott said that is premature.

Mr. Chairman: But logically, considering the urgency of the problem, it is more logical for the federal government to make a reference to the Supreme Court, is it not? It would take at least a year to get there if we started it in the Court of Appeal.

Dr. Fairley: I do not know what the calculus is in Ottawa on that. Their view is they have jurisdiction to implement. I suppose by asking the court they are suggesting that possibly they do not, and maybe they are going to take the high ground. I have no idea.

I think both levels of government are probably going to wait, at least for a little while, to see how the agreement shakes down, because the calculus is not merely ours. It is up to the United States Congress as well.

Mr. Kozyra: In reference to the liquor monopoly and the ability of the federal government to strip the monopoly, this is an effective lever or tool that could be used. Can they do this province by province, or would the stripping of the monopoly have to be done on a national scale, involving all the provinces?

Dr. Fairley: If they simply amended the Importation of Intoxicating Liquors Act--subsection 3(1) is the one that confers the monopoly--it would necessarily apply to all provinces at once.

Mr. Kozyra: So they could not be selective.

Dr. Fairley: I do not see why they could not be selective. That might raise some other constitutional difficulties if they chose to do that, which could be quite thorny, I suppose.

Mr. Kozyra: It is possible.

Dr. Fairley: Parliament can say what it wants and then put it to the test.

Mr. Chairman: They would have to decide that we were a more drunken province than the others if they were going to apply it just to us, I suppose.

Mr. Mackenzie: You made the comment that the language was a little tougher than you had expected in the agreement and dealt with requiring compliance with the treaty. Is it your feeling that was done to make the case more difficult from the federal position for the provinces to exercise their authority in any given area?

Dr. Fairley: I am not sure I fully understand the question.

Mr. Mackenzie: I am not sure I fully understand what you were saying either.

Dr. Fairley: My comment with respect to article 103 was that it was very up front about provincial compliance across the board, but when one looked at the draft elements of the agreement on October 4, that was not at all clear. What we were talking about on October 4 was what areas fall within

provincial jurisdiction. The one that occurred to virtually everyone up front was wine and distilled spirits. Then everyone was fishing around for what other problem areas there are.

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The negotiations since October 4 have, I think, made it clear that it certainly matters to the United States that the whole regulatory regime covered by the free trade agreement is caught. I think that is why article 103 is there. I am simply speculating on this; I do not know, but I think article 103 is probably there at the behest of the United States as opposed to following any agenda that Ottawa might have.

Mr. Mackenzie: It would seem to me, though, that it also makes it clear that they want and are requiring the compliance of the provinces.

Dr. Fairley: The United States?

Mr. Mackenzie: Yes.

Dr. Fairley: Yes, that is quite clear.

Mr. Mackenzie: To that extent, it would appear to be strengthening as well the hand of the federal government, if they are going to push the agreement.

Dr. Fairley: The pattern of headlines around the first two weeks of October was very instructive on that. The New York Times said that the federal government was going ahead with the agreement. The Ottawa Citizen and the Globe and Mail talked about Mulroney consulting with the provinces, but in that their agreement really was not required, he was just being nice. Then serious questions were raised about provincial jurisdiction to effect the agreement. Then the next headline, the one which I believe I see there, is---

Mr. Mackenzie: That is December 12.

Dr. Fairley: That is a little later. Later on in October, the headline was to the effect that the United States said that all the provinces must agree. So there was a bit of swing through that two-week period.

Mr. Mackenzie: I just get the sense that the language of the document was reinforced.

Dr. Fairley: I would certainly not dispute that observation.

Mr. Haggerty: I am trying to follow your last comments on the matter of making reference to Congress. If I interpret the intent of the act, particularly the American legislation, it says, "The role of Congress in formulating international economic policy and regulating international trade is based upon the specific constitutional grant of power under article 1 of the United States Constitution."

If we look at all the trade laws, even with the proposed agreement between Canada and the United States, Congress still is the major voice in any trade negotiations. The question is, now that we have a proposed agreement between the two countries made by the negotiators, it still has to refer back to Congress. I think they have a 90-day period to question whether it is in the best interests of the United States.

What happens in this instance, when references are made that it has to go through Congress once again and there may be some objections to it? The trade bill actually could be killed in Congress.

Dr. Fairley: It certainly could be killed in Congress; however, there is a particular time frame as a result of particular US legislation which dates from the Trade Act of 1974. That gave the President, I believe, a 12-year or 13-year period to negotiate trade agreements with other countries.

Mr. Haggerty: There is a lot of clout in that particular section.

Dr. Fairley: Essentially, Congress has delegated its power to the administration to negotiate trade agreements with other countries. That is why there is all the time pressure, because that delegated power expires in the new year. When the bill hits the floor after President Reagan signs it in January, Congress has 60 days to 90 days to vote it up or down, no amendments.

Mr. Haggerty: I guess the question is that of the most favoured trading partners.

Dr. Fairley: It is pursuant to the Trade Act of 1974. It is a special arrangement. In the absence, it is commonly known as the fast-track procedure. Vote it up or down, no amendments. Take it or leave it. By virtue of the Trade Act of 1974, Congress has abdicated its jurisdiction to mess around with the legislation. It cannot ask for amendments or anything like that; it can just say yes or no. That is what they will do; they will say yes or no. That, of course, is tied in with the omnibus trade bill which is also on the floor of Congress and which will also be before the House of Representatives and the Senate around the same period.

Mr. Haggerty: But the safety check in that procedure is still that the President has the power. It is vested in him.

Dr. Fairley: He has the delegated powers right now to negotiate the agreement, yes, and all Congress can do is say yes or no; end of story.

Mr. Haggerty: From your comments, if there is a question of whose jurisdiction it may fall under, provincial or federal, it means we have to refer it to the higher courts here in Canada, and as you said, the courts in this instance will make the decision. The politicians should be responsible, should they not?

Dr. Fairley: That is a different question. Just to clarify, in the United States, they have no state-federal difficulties in terms of implementing this agreement. All the problems in the United States are separation-of-powers difficulties; that is, between the President and Congress, all at the federal level. A lot of the political tradeoffs might be the same but it is all at the federal level. State governments basically do not get out of the starting blocks in the United States at all.

Up here, the tradeoffs are federal-provincial because of the Labour Conventions case, because of divided jurisdiction on domestic legislative subject matter and because of the absence of an articulated foreign affairs power in our Constitution. That is the difference.

Mr. Haggerty: With the delay that there may be in the process with a disagreement between the federal government and the provinces, should there not be another body that can make the decision without going to the Supreme

Court, which may take one or two years to bring down a decision? Meanwhile, you would have difficulties in trade negotiations with the United States. It could cost either party--let us take the wine industry, the agricultural sector. By the time it gets through the two years in that process, you could destroy the industry in either country, particularly here in Ontario.

Mr. Chairman: Mr. Haggerty, I do not think there is any other body. In deciding who has the most jurisdiction, the federal government or the province, unless you have some other new suggestion, it has to be the Supreme Court of Canada.

Mr. Haggerty: All I am suggesting is that there is another safety valve in the system on the American side and that is the Senate, but we have a Senate here that--

Mr. Chairman: But our Supreme Court would still have to decide where the power lies. The Senate may be able to do something with the agreement in so far as passing legislation is concerned, but that is at the federal level.

Dr. Fairley: Can I just clarify here? I think we should clear up something. What we were talking about with respect to Congress was whether or not the agreement would go ahead. Congressional consent is required for that treaty to become law in the United States and also for that treaty to be binding as between Canada and the United States. The American constitutional disabilities are up front. Congress says, "Yes, you have an agreement," or Congress says, "No, you do not have an agreement." In Canada, it is not so clear. There is no constitutional impediment to Mr. Mulroney's signing that agreement and Canada will be fully bound to that agreement to the extent of international law.

Mr. Haggerty: That is right.

Dr. Fairley: However, where the Supreme Court of Canada comes in is with the extent to which the agreement requires implementation in domestic law and the extent to which those implementing provisions fall within provincial jurisdiction, but that is a purely domestic matter in Canada. Assuming the federal government goes ahead and signs the agreement on the assumption it has all the legislative jurisdiction it needs to pass all the implementing legislation, then assuming that later on it is proved it does not, the result is that Canada is bound by the agreement in international law and is responsible for that but it is incapable, as a matter of domestic law, to deliver on it. Of course, Ottawa wants to avoid that.

Mr. Chairman: I have Mr. Neumann, Mr. Sterling, Mr. Ferraro, and if there is time, Mr. Mackenzie.

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Mr. Neumann: First, the article I was holding up refers exactly to what you pointed out. In its reference to article 103 where it is quoting an American official, the official said, "It is up to the Mulroney government in Ottawa to ensure that all 10 provinces live up to the terms of the agreement."

Is there a requirement on the part of the federal government to deal with provinces in an even-handed manner? My question is stimulated by watching the news last evening. Mr. McKenna said that he, on behalf of New Brunswick, supports the deal provided the federal government does something about the impact on the food processing industry in New Brunswick. We also have food

processors here in Ontario who could be affected. Can the federal government give a special deal to one province?

Dr. Fairley: I think the federal government, in relation to the United States, is bound by what the deal says. They cannot rewrite the agreement with individual provinces. I think that is quite clear. On the legalities of it, there is no legal requirement for Ottawa to consult. However, there is an awful lot of practice which has grown up between the levels of government that indicates that is clearly what Ottawa should do before it goes ahead with the agreement.

Mr. Neumann: Suppose the deal goes through and, as we have been told, there is an impact on food processing industries--they go under in Ontario; they go under in New Brunswick to some degree--and because New Brunswick supported the deal, Ottawa works out a special deal to support its food processing industry, to revive it in some way. First, is that contrary to the deal, and second, can Ottawa treat provinces in a discriminatory manner?

Dr. Fairley: Ottawa could do it and then it would be up to the United States to object. Then there are provisions in the agreement for dispute settlement by the commission that would be established under the agreement and they would deal with the complaint. It would be a matter for intergovernmental consultation. I think Ottawa would have to be extremely careful about deals with individual provinces in sectors which gave local food processors, for example, a competitive advantage over American competition.

Mr. Neumann: Suppose the Americans did not challenge it. Under our Constitution, could a food processor in Ontario challenge the right of Ottawa to give assistance to food processors in New Brunswick, providing a program to one and not the other?

Dr. Fairley: I cannot give you a quick answer to that. There are principles of equalization set out in the Constitution. It would be a question of seeing exactly what the program was.

Both sides are going to try to accommodate particular problems they have with dislocations in their economies after this agreement goes into force, if it does. Those are going to constitute trade irritants on either side. The food processing example is one possible area. One would just have to see. I think each side will try to go to the limits of the agreement on that. There is nothing specifically stopping them except the terms of the agreement itself and what the likely consequences are of not playing fair. We will just have to see.

Mr. Neumann: My second question, quickly, is related to the dispute settlement mechanism and its relationship to the Supreme Court in either country. Can a citizen or a corporation in the United States appeal to the Supreme Court on the basis that the dispute settlement mechanism takes away its right to take a matter directly to the courts? Can that happen in the US and can that happen in Canada without a constitutional amendment putting something above the two supreme courts?

Dr. Fairley: Those would fall under the fundamental rights, the bills of rights in both Canada and the United States. That problem was flagged in the negotiations between the two parties. I think what they have tried to do is to provide an extraordinary challenge procedure in the dispute settlement provisions where superior court judges from both countries would sit. As a constitutional matter, I think the intent behind that provision is

to avoid the constitutional objection you have just raised. The intent of both countries is quite clearly to avoid those difficulties by this extraordinary challenge procedure. The intent behind it is that the Supreme Court of neither country, nor indeed the federal courts, will become involved. They have attempted to address those constitutional difficulties on both sides.

The short answer to your question is that if the agreement works on that score, no, you would not be able to go to your own domestic court. You would be bound by the dispute settlement procedures that are set out in the agreement itself.

Mr. Sterling: I would like to thank you for coming. I found your presentation really quite enlightening. It explained a lot of things to me a lot quicker than I could probably discover. You also teach at a university I attended with a very good law school.

I do not know if you have had the opportunity to study other countries and their structures, but the trade and commerce power in the United States is clearly at the centre and, therefore, if the Congress of the United States, the federal power, passes that particular law, all the states have to fall in line, period. There is just no question about it. It is done and that is the way it is.

Here there is confusion. There may or may not be a sharing of that trade and commerce power. Depending on how the provinces want to react, that may or may not be questioned in the courts.

The fact of the matter now appears to be that this trade agreement will be signed by our federal government. The Congress of the United States probably will pass the trade agreement. Therefore, the way I read everything we have talked about in terms of process and trying to look down the road is that in effect free trade as per this agreement will become the law of the land, and things will have to start to change after that to fall into place with regard to the agreement.

What happens if in that minor three per cent, or whatever we want to say, of provincial cases, one province does not fall into line in terms of any one of the areas where implementation would require legislation, for instance, on a provincial basis? Is the only way the federal government can get that done by negotiation with the provincial power?

Dr. Fairley: Assuming the issue is litigated and the result is that the provincial powers are upheld on those issues of disagreement, then yes, that is the only alternative. That is what the Privy Council said in 1937, that the solution here is co-operative federalism. Indeed, that is the solution which has been followed and practised since that case was decided. By and large, it has worked very well.

I think it is unfair to say that Canada has been totally incapacitated internationally. It has not. However, it is a disability that has tied it down and is also up front in the issue you are debating now. The point is that after the agreement is in place, and if these issues are not sorted out, Canada's international responsibility, in this case to the United States, is unaltered, so it is up to the government of Canada to compensate the United States in some way or come to terms with it because it is basically caught.

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The same thing has happened to Canada before the General Agreement on Tariffs and Trade in two separate instances, both involving Ontario practices. The government of South Africa took us to GATT on retail sales tax exemption for Maple Leaf gold coins. We lost. The government of Canada attempted to argue that a provision of GATT, article 2412, only bound it to reasonable measures which, of course, did not include invading areas of provincial jurisdiction or taking them to court or what have you. The GATT panel involved in that did not really question the Canadian argument on that score so much as to say that whether you do or do not have reasonable measures at your disposal to ensure compliance, you are still responsible.

The same thing has happened just recently with the Liquor Control Board of Ontario complaint of the European Community. That is still being negotiated, though, so the decision is not public knowledge, although the Globe and Mail seemed to have a pretty good idea of what the decision said.

Mr. Sterling: Essentially, you are saying the deal is done, except for rearguard action.

Dr. Fairley: Once it has gone through, internationally, Canada is caught. What happens domestically is a separate question. If Ottawa cannot get all the provinces on board or certain areas of the agreement are simply out of its reach, then Ottawa is going to have to pay the price for that.

Mr. Sterling: If push comes to shove and the provinces do challenge the trade and commerce power of the federal government, the provinces risk getting the wrong answer back.

Dr. Fairley: I think that is quite clear. I realize you are running out of time. I will just refer very quickly to the Canadian National transportation case. The Attorney General (Mr. Scott) is aware of this, I am sure. The general trade and commerce power is right now, I think, a loaded gun pointed at provincial authority. Exactly how it will go off and whether it will hit the bull's eye remains to be seen. But Chief Justice Dickson said in the Canadian National transportation case a useful quote I will just throw out to you. "Every general enactment will necessarily have some local impact...." That is Mr. Scott's argument in this speech: local impact, local impact, local impact.

Dickson goes on: "...and, if it is true, then an overly literal conception of general interest will endanger the very idea of the local. However, there are equal dangers in swinging the telescope the other way around." Then he says, "The forest is no less a forest for being made up of individual trees."

I suggest to you that what we have in the free trade agreement is a very large forest, the largest we have ever seen or are ever likely to see. It is a comprehensive deal sweeping the whole country into a free trade area.

Mr. Chairman: We are really short on time. Mr. Ferraro.

Mr. Ferraro: I will try to be brief, Mr. Chairman. Dr. Fairley, let me thank you very much for coming. I have found it very informative. We could probably spend all day asking you questions.

I have two questions specifically. Could you elaborate for me, first, on something you touched on? Can jurisdictions, in this case the Ontario government, or indeed the federal government, although that is probably not going to happen, ask for an opinion of a court on an issue that is not law yet?

Dr. Fairley: Certainly. The reference statutes at either level provide for that. The courts are not compelled to answer such a question, but if previous practice is any indicator, if it is a constitutional matter of great moment as the free trade agreement certainly is, then the court will probably feel compelled to give some kind of answer. The patriation reference in 1982 is probably the best example of that because there were some questions that were put to the court that were really nonlegal. The court divided its opinion between what it thought the strictly legal answer was and what its opinion was with respect to what they term "constitutional convention." Constitution convention, as opposed to legal requirements, might play a role in the debate.

Mr. Ferraro: The procedure--let us assume Ontario was so inclined--is that it could go to the Ontario Court of Appeal.

Dr. Fairley: That is correct.

Mr. Ferraro: And then to the Supreme Court of Canada?

Dr. Fairley: If they like the decision they got from the--

Mr. Ferraro: But they cannot go directly to the Supreme Court of Canada.

Dr. Fairley: No, they cannot.

Mr. Ferraro: The other question I have--I am unsure of this--is that I understand in the United States they are going to have to come down with implementation legislation subsequent to and assuming Congress approves the deal. Is implementation legislation necessary in Canada? I am a little fuzzy there.

Dr. Fairley: Quite clearly it is.

Mr. Ferraro: We are going to have to have implementing legislation?

Dr. Fairley: The distinction is that in the American system, the implementing legislation is a sine qua non for the treaty as a matter of international law as well as implementing it into United States law, whereas in Canada the agreement itself is a separate issue which the federal government has plenary authority to negotiate. However, to satisfy the United States in a very similar time frame to the one Congress is going to have, Canada, and the provinces to the extent they are involved, are going to have to put into place the required legislation. Otherwise, there will be no deal.

Mr. Ferraro: The last question I have--no one is arguing the federal authority to make treaties.

Dr. Fairley: It is a practical matter, though, if they can make it but it does not mean anything unless they can implement it, so it is a package really.

Mr. Ferraro: That is true and that type of co-operation is

desirable. It is somewhat ironic that we have Meech Lake and that co-operation and we have walls being built now on the free trade deal.

Having said that, the question I want to ask is, if it is going to challenge it, would the province have to take an area where there is energy or wine, or indeed all the areas where it thinks it has provincial jurisdiction, and launch a series of challenges, if you will, as opposed to saying, "We think the deal in general is too much of an infringement on our rights"?

Dr. Fairley: In terms of a reference, the Attorney General (Mr. Scott) is free to ask whatever questions he wants. I cannot for a moment think he would bring separate challenges.

Mr. Ferraro: It will be one and will say, "These are the areas where we think"--

Dr. Fairley: These are the areas.

Mr. Ferraro: Hypothetically, if the court said, "We agree with you," what are the alternatives? Where are we? Is the deal dead?

Dr. Fairley: If you get the Ontario Court of Appeal saying, "Yes, you have this authority and no, that doesn't end," and then the political message to Ottawa is, "We're not going to do it," then I guess the answer is, yes, the deal is dead and there is nothing Ottawa can do about. Washington is going to say: "All right, you can't deliver. The constitutional opinion is you can't deliver, so we're taking our marbles and going home."

Mr. Chairman: Another thing I think we can do is simply carry on as if the deal did not exist and let a private citizen challenge one of our laws. Is that not possible?

Dr. Fairley: I think it is possible.

Mr. Chairman: I am going to ask a question quickly, if I may, because I have been waiting for this question and it has not really come up. I am going to ask you to answer very quickly, if you can. Do you have any particular reaction to Mr. Scott's rather powerful suggestion that the federal government has, in essence, bargained away to a foreign power some of the provincial powers, as opposed to simply trying to usurp them as a federal power? In that sense, he has suggested that there is an attempt to unilaterally amend the Constitution.

Dr. Fairley: Assuming that what you have said is what Mr. Scott has said--

Mr. Chairman: I will quote from him: "The principle is that one order of government should not have the power to bargain away the powers or jurisdiction of the other without consent. Under our Constitution, the federal government does not have the power to unilaterally reduce the jurisdiction of the provinces." I think the suggestion is that they have in essence given some of our power to the United States as opposed to keeping it at the federal level.

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Dr. Fairley: I would not go nearly that far. The practical matter is that either government can terminate this thing on six months' notice. What

Ottawa is doing is saying, "We have the power to implement this agreement and that is what we are going to do." While Mr. Scott has his view of what provincial jurisdiction is in these various areas, Ottawa has its view of what its jurisdiction is; I think that is where the argument really lies.

Provincial jurisdiction is not being put in an envelope and sent to Washington. I, for one, cannot go that far. I think the areas Mr. Scott has suggested are areas that are arguable, but with all due respect to Mr. Scott and whoever is giving him his advice, his ground is probably no more solid than that of Mr. Mulroney. You can pick your side.

Mr. Chairman: I remind the committee that we have another guest. Professor John Saywell has been listening for over half an hour. I am sure he has some views that may be somewhat different from Mr. Fairley's. So with that, despite the fact I see a number of hands up, I am going to have to bring this discussion to a close. I thank you very much for coming down here from Ottawa today. Obviously, the committee has learned a great deal from what you have said and we appreciate it very much.

Professor Saywell, would you like to come forward, please? We appreciate your coming here as well. As I indicated, I saw you enter the room about 20 minutes to 11. You have heard a fair amount of the recent discussion. You may have an opening statement you wish to make and I will entertain questions thereafter.

DR. JOHN T. SAYWELL

Dr. Saywell: I do not really have an opening statement. I am sorry I did not hear more of Professor Fairley because perhaps some of the things he said might overlap with some of the things I might suggest to you, nor have I read the Attorney General's speech except for the press comments.

I suppose my opening statement would be that if the province chooses to play the court game, it is a high risk game. The federal government has an enormous arsenal of weapons at its disposal constitutionally, either to get around or to run over provincial objections to the agreement.

I say this not suggesting for a moment that I accept the argument that the federal government has the power to implement the treaty, if indeed it is a treaty rather than an executive agreement, with concurrent legislation. In that I differ from Professor Hogg who as you know is advising the federal government on this. The Globe and Mail is also advising the federal government à la Professor Hogg.

The question is less on the meaning of section 132 in the 1867 Constitution than on whether legislation in relation to a treaty creates "treaty" as being a subject matter and therefore falling under the residual clause of section 91. That is Professor Hogg's argument. I think by and large most people would go along with Laskin who said that section 132 as a provision is dead, so that the question is whether "treaty" is the subject matter and whether, therefore, you can implement whatever you pass.

I do not think that is a sustainable argument, although certainly most constitutional lawyers do. The reason I do not think it is sustainable is not the Labour Conventions case, which was probably wrongly decided, but that politically it is too loaded. Whatever we may think of the courts, they have a strong sense of politics. It is interesting that then professor La Forest, now a justice of the Supreme Court addressed this question in an article he wrote

in the Canadian Yearbook of International Law in 1974 in which he said that we could probably overturn the Labour Conventions case, but the Constitution of this country does not, in terms of its federal Constitution, go on strict law. The courts have to create a balance. To overturn that case would be to lose the kind of balance that has been created.

Mr. Justice Rand, in an article often cited in the court, in 1960 suggested "treaty" was a matter and therefore the federal government had full powers of implementation. It has been cited sympathetically by Laskin, for example, who is still the guru of the court, but my guess is that is not what the federal government would choose to use.

I think, however, the high risk comes in the comments mentioned by Professor Fairley at the end. If you track the decisions in the Supreme Court from the anti-inflation case through to the case he mentioned, the Canadian National transportation case, there is a strong current of picking up the second branch of the trade and commerce power as it was in the still famous Parsons case and elaborating it. That is precisely what Dickson was talking about in the case Professor Fairley mentioned at the end.

There is probably a majority in the Supreme Court that would go that way. That case did not depend on the use of the trade and commerce power; it depended on the use of the criminal law power. But Dickson went out of his way, in a very long argument, to argue that the second branch, though it had not been used, was still there and should be used; "the telescope swinging the other way" is the memorable quotation from that.

Lamer and Deetz, I think, joined in that, expressing sympathy for it, and there seems every indication that argument could get a majority on the Supreme Court. That is the argument, it seems to me, the province ought to be aware of; that is, the trade and commerce power, limited by the courts after Parsons, does in fact speak of a power basically for the general advantage of Canada. The way the court is going, it seems to me that is where the risk comes.

That is also supported by the fact that there has been recently increased interest in the court on what used to be called the national dimension. Dickson has commented, for example, that if only one province resisted legislation deemed to have a national dimension or a matter of national concern, then he would see pulling in that second branch of the trade and commerce power. He has been very explicit about that, as have other members of the court.

If you join the trade and commerce power to the traditional national dimension, national concern, you have pretty powerful arguments that, for one province holding out on one or two minor issues such as liquor, wine, government procurement, in fact the federal government would win in court.

The argument I do not see as being relevant, and I believe it is one Professor Russell made, was that the federal government could use its declaratory power under section 92. I cannot see a court sustaining the argument that liquor stores are local works and undertakings, even though it has been used to take over restaurants and hotels. I do not see the declaratory power in that sense being used.

I am not inventive enough to draft the legislation, but I am certain that using the categorical federal power over interprovincial and international trade, you could pass legislation which would in effect control

discriminatory prices at provincial liquor boards, because the federal government has absolute control over any goods moving into or out of a province. Just as they used their financial power on the extra billing case, I am sure that using customs and excise, their unlimited control over international and interprovincial trade and their unlimited taxing powers, they could probably find ways to legally bludgeon the provinces into some kind of co-operation.

As the final thing, I think, there is a field of study called behavioural judicial review, in which you look at the general position that members of the court have taken in the past. If you look at the writings of La Forest or the writings of Gerald Le Dain--I just went through his long piece on Duff before coming here--if you look at Lamer, McIntyre, Dickson--Wilson has not written anything in this area--by and large, you see strong sympathy for the view that the courts unnecessarily have restricted the federal government's power to manage the national economy; very strong views in at least five of the present members of the court.

Madam Justice Wilson, the new one from Quebec, even Jean Beetz, who as you know was the most categorical in his denial of the federal government's power in the anti-inflation case, has expressed sympathy for that broader view. If you look at the general position a majority of the judges have taken on that broad question of national economic management, I think you again have to come to the conclusion this might be a risky business. That would be my statement.

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Mr. Mackenzie: If I understand, and I am not sure I do, the sense of everything the last three witnesses have told us here is that, as you would up, relying on an argument of provincial jurisdiction is going to be a difficult one at best in terms of this agreement. Without the kind of expertise we have had thrown at us, it is a view that I know I have felt and so have my colleagues all along.

It seems to me that the issue is much more a political one. If there is reason for even the challenges or advanced challenges in the court, it has to be in terms of trying to influence the American decision as much as anything else, that there is not unanimity on some of these issues in this country. Am I off base on that? There is a risk in winning the case in court, but in political terms, the very fact that there is enough feeling that the provinces would be willing to take that action might have some value in a political sense.

Dr. Saywell: I am not sure I follow you on your last point. The risk of losing in court is that you have lost a lot. If, for example, there was a court challenge on the treaty power and it was lost, that would have enormous implications for the future because the door would then be open, to anything that was not colourable, for the federal government to go away and negotiate treaties on everything. As long as it was not deemed to be a colourable treaty, a pretext for moving into the provinces, the province would have lost a lot. That is a risk I think they will consider.

My feeling is that this is not the biggest danger to the province. It is the extension of the trade and commerce power to include broad questions of national economic management where the refusal of a province, even the largest, to go along would be deemed by the courts not adequate to stem that

federal power. As for its political implications in the United States, I have no basis to judge that.

Mr. Mackenzie: On the same line, if I could just use one example, the Constitution currently, as I understand it, assigns the provinces the exclusive right to make laws in relation to the development and exploitation of nonrenewable resources; forestry and electrical energy within the province. Under this agreement, the US has almost totally unrestricted access to our energy resources. We cannot charge Canadians less for the resource than we can the United States. Most provinces have used this as an economic measure in terms of development or regional disparities or you name it. If we go ahead and challenge the right on that basis, we do stand to lose one hell of a lot.

Dr. Saywell: That amendment to the Constitution of course also includes in it a concurrent and in the end a paramount power for the federal government in case of conflict. Second--this is outrageous and I do not think it would happen--the declaratory power would certainly work for oil fields. It worked for railroads and grain elevators and pipelines and it can certainly work for oil fields. So if you get into the heavy hunting with the big guns, the declaratory power is a mighty big gun in the hands of the federal government.

Mr. Chairman: Mr. Ferraro and Mr Neumann.

Mr. Mackenzie: Which raises a number of questions on why we let it get this far.

Mr. Chairman: I am sorry. Did you have another question?

Mr. Mackenzie: No, that is fine.

Mr. Ferraro: Professor, I appreciate your expounding on the risk involved in the court challenge and so forth, but I want to change the line of questioning. It appears that most reasonable people would say it looks like this deal is at least going to be approved by the federal government in Canada, by the administration in Washington and, hypothetically, by the Congress.

One can argue well, why the hell would you want a court challenge because, if what you are saying is right, this government is going to fall politically and you are going to get some other form of government in there and two other leaders have basically said they are going to dispense with this agreement? Professor Russell last week indicated that is ludicrous and I, as an individual, have some tendency to agree that is not the way to go about it.

You have a six-month cancellation clause for this agreement. I am really hypothesizing here, but let us assume, come mid-1989 or whenever, you have a new government in there. Would you explain to me what the ramifications would be for Canada economically, politically and internationally if indeed it said: "Okay, we are going to exercise that six-month clause. We want out of the deal, guys"? That is a very difficult question, but I would like some of your thoughts on that as an historian.

Dr. Saywell: I came here as an historian for the Constitution or a person who teaches modern constitutional law. As a political economist, first, I suppose one could not necessarily agree that there is going to be a change of government, but presuming that there is and it is immediate, I do not think the damage to the Canadian economy would be too great. I think the bigger

danger is that you get five or six years down the road, all of the adjustments by firm and by sector have been made and that process of transition to, ideally, a more competitive economy or, certainly, to a changed economy is in place and then you cancel the agreement.

Then all of those decisions cannot be undone. Firms have moved. People have introduced technology. Firms have downsized or upgraded, whatever the consequences of this treaty will be. If, as everyone assumed, it is designed to be a very heavy, enforced sort of club on the Canadian economy to become more competitive and more efficient, which it does not seem to be able to do by itself, then there is going to be a lot of dislocations. If three or four years from now those are under way, then I think the cancellation would be really serious. If it is as early as you say, the next election, then I do not think many people will have made major decisions because they too will hold off making decisions until they see the outcome of the election.

Mr. Ferraro: I appreciate your comments, but what would that do from a reputation standpoint if, say, within two years you have two major decisions affecting an international agreement?

Dr. Saywell: My feeling, and I am no more capable of knowing the accuracy of this statement than the man on the street, is that if we opted out of an agreement we had signed, we would then probably incur the wrath of the US Congress and every trade bill, every countervail, every protectionist measure that they applied against anybody else would come down on us with a resounding thud. We get hurt more by that than anybody other than possibly the Japanese.

If the federal government has got the heavy artillery in the constitutional battle, certainly the United States has got the heavy artillery if we decide to play trade war with the United States. It is not a very nice prospect.

Mr. Ferraro: Unless, of course, the administration in the United States changes.

Dr. Saywell: If the administration of the United States changes, it would be even more sympathetic to international free trade, to the General Agreement on Tariffs and Trade and to bilateral agreements than the present administration.

Mr. Neumann: I would like to pick up on the comment you made that there seems to be a sentiment on the Supreme Court of Canada to uphold the authority of the federal government to manage the national economy and that is a trend.

Would you comment on the irony--I see it as an irony--that the provinces supporting this deal are traditionally provinces which jealously guard their provincial rights, Quebec and the west. They support the deal not because it gives the federal government greater authority to manage the national economy, but because the federal government indeed is abrogating its authority to an international agreement and in the future will not be able to take national policy decisions on energy or on foreign investment, indirectly protecting the provincial interest.

Ontario, which is the province that generally has had great sympathy for having a national economy managed at the federal level, is taking the position of protecting the provincial interest because, in effect, that national

authority is being usurped by this treaty. Do you see an irony in this? What implications does it have?

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Dr. Saywell: First, any international treaty or any bilateral treaty is, in some way, a surrender of independent decision-making. That is obvious. You subtract your independence in decision-making by the agreement in the treaty.

Second, Ontario has not, throughout its history, been known for its sympathy for the federal position. In fact, most of the leading decisions have been Attorney General of Ontario versus Attorney General of Canada. Ontario under Mr. Mowat, Mr. Hepburn, Mr. Drew and Mr. Frost has been very strongly anti. Mr. Davis in the anti-inflation period and the gang of whatever they were represented little change in course for Ontario.

I do not think that, historically, I could buy that. Certainly, there is a paradox in Mr. Bourassa's very strong position, but it has been said in Quebec that free trade is decentralizing, as it unquestionably is. Free trade is the most decentralizing thing that has ever happened in the history of this country. Quebec under Mr. Bourassa, Mr. Parizeau, Mr. Lévesque or Mr. Duplessis is decentralist. If you can move more of your economy from the interprovincial markets into the international and American markets, then that is fine. If you look at it from the point of view of nationalism, that is a good idea.

Ten years from now, the arguments that worked in the referendum might not work any more, because you will have less to lose by getting out of the Canadian common market, although it is not really a common market--let us say the single market. Ontario has the most to lose from that market breaking down and perhaps the most to gain. I think Ontario is in a very difficult position. Traditionally, that single common market has undoubtedly been to the benefit of Ontario more than to any other section of Canada. Every study demonstrates that. But also Ontario is the biggest trader with the United States and has the most to lose if the United States imposes its economic nationalism on us. So it is a hell of a decision for this province to make as to which way it goes on this.

Mr. Neumann: My point in raising it was--and you seem to agree--that this agreement is a decentralizing force.

Dr. Saywell: Free trade is a decentralizing force.

Mr. Neumann: Yes, it is a decentralizing force. How then does this sentiment on the Supreme Court to uphold federal jurisdiction to manage the national economy come into play if, indeed, the agreement is a decentralizing force?

Dr. Saywell: There is no--

Mr. Neumann: Could the province take that as a possible argument?

Dr. Saywell: I did not say that the Supreme Court was centralist. I said there was a strong sympathy for the power of the federal government to manage the national economy, and that is different.

Mr. Neumann: But in this case, the federal government is giving up its authority to manage the national economy.

Dr. Saywell: It is gaining authority to manage the national economy, but within a global international economic environment.

Mr. Chairman: Just supplementary to that, do you not see any situation in which, if an argument came down to the raw issue as to where the power lies, a province like Quebec would not be interested in supporting us, if not for the sake of the free trade agreement, for the sake of a future course of action by the Supreme Court?

Dr. Saywell: There has been nothing that I have seen to indicate that Mr. Bourassa is the slightest bit concerned about losing his power to discriminate against Quebec grape growers, or apple cider makers or anything.

Mr. Chairman: With natural resources that he--

Dr. Saywell: He wants to sell them. He just wants to build those transmission lines from James Bay to New York. He will go along. As for Mr. McKenna--I mean, five or six frigates get agreement for these.

Mr. Chairman: In fairness, is it not the case that a lot of those Attorney General of Ontario versus Attorney General of Canada cases really arose as a result of the fact that Ontario has had more resources to mount fights with the federal government in situations where perhaps all 10 provinces had the same interests?

Dr. Saywell: I would think in some cases, though certainly not in all. By resources, do you mean lawyers?

Mr. Chairman: Yes.

Dr. Saywell: Possibly.

Mr. Chairman: Whereas in many of those cases the interests of Prince Edward Island perhaps were really more vital than those of Ontario.

Dr. Saywell: Prince Edward Island is a client state. Prince Edward Island is not a province. It is really managed by federal money. It is a client state of the federal government.

Mr. Chairman: Therefore they need Ontario to fight for their rights.

Dr. Saywell: I do not think so. You have provinces and provinces. At the moment, there is only one real province in the sense of a lot of clout, if you sort of average the west, that is standing out. Again, I repeat, that is a high risk. There are very concrete statements--and Dickson made it further on, from the quotation that Professor Fairley made. He makes it absolutely clear, that if there is something that is for the general economic advantage of Canada and one province stands out, his position, as expressed, would be that the federal position would win. He attacks Duff's lurking fallacy, that one province can, in fact, withstand any specific transactional malices, which were Duff's words.

Mr. Neumann: Assuming Ontario decided to go the court challenge

route, does it strengthen its case to do so in concert with PEI and Manitoba, rather than alone?

Dr. Saywell: I suppose.

Mr. Neumann: You do not seem to show much respect for what are two equal provinces. In the constitution it is there.

Dr. Saywell: I know constitutionally we 10 are all equal. All I am saying is that Prince Edward Island is not likely to. Prince Edward Island does not have the resources to make Ottawa mad at it. We know the extent of equalization payments and every single shared-cost program, regional development program. Come on, you cannot--there is too much muscle there. It is the same with Newfoundland. Some 85 per cent of their revenue is coming from another government.

Mr. Neumann: And the mussels are poison.

Dr. Saywell: Yes.

Mr. Haggerty: Just on that point though, as we in Ontario are concerned, as Ontario grows in prosperity, so does the rest of the economy. This is in the sense that, as the economy grows in Ontario, there is quite a bit of wealth that leaves Ontario in transfer payments to the federal government, disbursed across from one province to another.

There is an equalizing factor there. But suppose there was an adversity that took place after this trade agreement and the economy of Ontario goes down. Mulroney, I believe, talked about thousands of jobs that would be lost, but there would be thousands of jobs gained, but there is no evidence of that. There is evidence, particularly in the northern part of the United States, say, along the Great Lakes basin, that they feel the pinch now that industry has moved further south.

As I look at the trade agreement between Canada and the United States, there are many hidden factors behind it, if you look to our natural resources. The GRAND Canal project brings the freshwater resources down from James Bay. I attended sessions in Albany and I listened to what goes on with the thinking of the state legislatures, 13 of them along the Great Lakes. They have in mind that once this thing goes through, they are going to start exporting water to the southern part of the United States.

This is not even mentioned in this, but this is what they are thinking on the American side. Once this comes through, they are going to tap that resource that is there. You sit back, wonder and say, "Yes, someplace along the line, somebody is going to be shortchanged in this, and it could be Ontario or it could be Quebec." Everybody is screaming to export energy to the United States without having a national grid. They should establish that first and then, if there are surpluses, let them go that way.

Right now the United States is not building any more nuclear plants. They are not bringing any more on stream. They are looking to Canada for that resource and energy without any heavy investment of money on the American side being put into new facilities on the American side. When you look at that, if you are going to get cheap power over there, eventually it is going to be cheap labour over on that side and the cost is going to come back to Canada

here so that we cannot compete if we are giving away our energy for almost nothing.

When I look at this whole matter, I am concerned in this area that in the long run I think we will be shortchanged as we give away our rights to energy and natural resources in Canada. The federal government under section 92 of the act says that the province has that jurisdiction. There is a little clause later on that says, "For the interests of all Canadians, we have the authority in this particular area to say which is best for Canada."

I just feel that when we get into energy in this part, as Mr. Mackenzie has talked about it, we are going to be shortchanged on it. Right now you can buy Canadian gas that goes down through the western provinces into the western part of the United States. You can bring it through, let us say, the Michigan pipeline, and Union Gas is buying it cheaper from that side--Canadian gas--than we can buy it here.

Mr. Chairman: Do you have a response to that, Dr. Saywell?

Dr. Saywell: That is really asking the question whether you believe, in the short term, the intermediate term or the long term, that free trade is a good deal for Canada, and that was not the question I came here to ask. I imagine I have read as many of the economic reports as everybody else, and the answer is that we have, in a sense, a hung jury. We have all of the macroeconomists arguing that it is going to increase gross national product by from three to seven per cent over the long term. We have some of the micro people looking at specific sectors and saying it is going to help or it is going to hurt. Nobody has put it all together.

I do not think anyone in the country, at least that I have read, is capable of sitting down now and saying, "These are the concrete, measurable effects of this," either nationally or in any given area. But I think there is also no doubt that many of the changes that free trade will accelerate are inevitable in the sort of maturing or immaturing of Canada in the global, international political economy. That is why I said earlier it is sort of a heavy club to force the Canadian economy to be more competitive, to fall back more on its comparative advantages, to develop its linkages. Many people will argue it is going to force us to do what we should be doing anyway.

On the question of water, friends of mine in Sault Ste. Marie are already selling it by the bottle and making a good profit at it, whatever it is--Ontario Spring or something. I am in Japan and I see Rocky Mountain bottled Canadian water. A friend of mine said: "Water is what we should be selling. God, it falls in Canada, we sell it to the Americans, it evaporates in the United States, comes back to Canada and falls again. It is the most renewable resource we have." By the bottle is high value added, so maybe it is better to sell it by the bottle than by the pipeline.

Mr. Haggerty: Canadian spirits.

Dr. Saywell: I guess if you press me, I am persuaded--and this comes largely from living and working and being a student of Canadian-Japanese economic relations, which tend to be trilateral too--that we are not moving fast enough. With all of the money we are throwing into centres of excellence, it is a very, very slow process. In fact, we are spending more money in Japan on a technology inflow program than we are in developing our own, and we are the world's worst producer of our own technology. Two per cent of our technology we produce ourselves. We have to do something, and if free trade is

the kind of thing that is going to force us to do something, then it is better than sitting back and saying, "In the long run, the Canadian spirit, Canadian identity and Canadian patience or perseverance are going to solve our economic problems," because I do not think they are.

Mr. Ferraro: Professor, this is just a general hypothesis and maybe you would like to comment on it. It is ironic--and I alluded to it earlier--that when you talk about nation-building and consensus, which the Prime Minister is concerned about, or so most people would argue, I think, and when you look at the accomplishments at Meech Lake, that now you have basically three of the partners in nation-building at odds with the federal government on a very, important issue,--or am I mixing apples and oranges here?

Dr. Saywell: I am not sure I see the connection.

Mr. Ferraro: I guess what I am trying to say is at Meech Lake we came together, or appeared to be coming together, as partners in Confederation. Everyone was willing to give and take to some degree in order to build a stronger Canada, and yet most people will argue that this is probably a more important agreement, vis-à-vis the effects on us as a country, than the Meech Lake proposal, and you have three players in that consortium that are at odds with the federal government. I am just wondering, aside from being ironic, are there any ramifications for the country, or is it, obviously, that the next game plan is to avert a court challenge and to try to get everybody on side, which is hypothetical?

Dr. Saywell: Meech Lake is also decentralized, very decentralized, and I think the irony is that we have both of these things coming together, both of which are going to decentralize the country. Both are going to certainly loosen the bonds between Quebec and the rest of the country. I mean Meech Lake, whether one agrees with Meech Lake-Langevin or not, quite clearly excludes the government and Legislature of Quebec from most of the Charter. Since it is situated as the second clause in the 1867 act rather than somewhere else, rather than even in the preamble where Bourassa would have been happy to have it, it may even take precedence over other sections of the 1867 Constitution.

That is decentralizing, and that is why there is such strong and heated opposition to it. I am quite forgetting the spending power and the Senate and the Supreme Court, which I do not think are that important, but certainly "the distinct society," and "preserve and promote" are highly decentralized in terms of the province of Quebec, and so is free trade, So I see them as moving in the same direction.

If that is building a stronger Canada, fine. It may be. A happy Quebec equals a stronger Canada. What is good for Ontario is good for the rest of Canada in free trade.

Mr. Ferraro: I guess what I was alluding to is that at least all the Premiers, with the exception of Mr. McKenna--and he may want to argue for a couple more frigates--are on side on Meech Lake at this point in time. On the other hand, they are not on free trade.

Dr. Saywell: I think the biggest battle over Meech Lake is going to be in tManitoba where Mr. Pawley is going to have real trouble. In fact, the people who are opposed to Meech Lake are putting their bets and their energy on Manitoba; so I do not think we are through with Meech Lake.

There is where the tradeoff comes: "Mr. Pawley, you want free trade; we want Meech Lake." He cannot give them a sub because they cannot build subs in Manitoba.

Mr. Chairman: Do you think those who are concerned about free trade might have been farther ahead if Meech Lake had occurred first, if it had been passed into the Constitution?

Dr. Saywell: I am not sure. I know people wake up in the morning and ask, "What do I fight today, Meech Lake or free trade?" Maybe the enemies of both have their capacities dissipated by not knowing on which front to fight that day.

Mr. Pelissero: You mentioned earlier that you are more a student of the Japanese-Canadian kind of trading relationships. If and when the trade pact does occur, implementing legislation comes down and everything is on stream on January 1, 1989, what has been the international reaction either from European Community countries or the Japanese in terms of trading relations with Canada?

Dr. Saywell: I am quite sure that both the EC and the Japanese will go to the General Agreement on Tariffs and Trade if they see their interests harmed by this bilateral agreement.

The Japanese, when I was there in October, had better information than the Canadian embassy about the negotiations in Canada. They were getting them from their contacts in Washington, their own people. They were much better informed. If we wanted to find out what the state was, there was no point in going to the telex machine from Ottawa. You would go to the Japanese Ministry of International Trade and Industry or the foreign office and they would tell you what was happening. They had simply been tracking that and tracking it with that same obsession for detail and who is saying what to whom and so on. Quite clearly, they are concerned and, quite clearly, according to Yanagisawa and others with whom I have talked, a lot of investment decisions and plant expansion decisions are on hold until they see exactly the way it is going to go. It may have had some success in being a little closer to being able to get in the auto pact with 50 rather than 60. They are very concerned, yes.

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Mr. Chairman: That is a very helpful suggestion because we generally, as a committee, got most of our information from the United States. Japan might be a source as well. Any other questions?. Mr. Haggerty?

Mr. Haggerty: I have one direct question for the professor. Would you agree that the present trade bill that is before Congress is really a protectionist bill? We have been down there and have discussed it with a number of senators and congressmen. Yes, it is, and it is going to have to apply to all nations trading with the United States because of the acute deficit. I am looking at this particular trade bill, because we have always had fairly good trade agreements with the United States. When there have been some difficulties, we have been able to resolve them.

However, looking at that trade bill and its intent, to me, it is like having the United States holding a gun to our heads, saying, "Either it is our way or no way at all." As much as you look at the agreement, it is based on what is in the American legislation. It is not what some individual third party has said: "Yes, this is the agreement that we want."

Dr. Saywell: I think that the argument, the logic and the economics of free trade would be much less if the Americans were not moving in a protectionist direction. Those people in Canada who accept it--they may not like it but they accept it--have the best defence mechanism against getting hammered. That is a very strong opinion, one that you have undoubtedly heard.

If we did get hit by that, our \$16-billion trade surplus would go out the window, and then the boys who do not like the auto pact would say, "Well, hell, let's give it to the Canadians on the auto pact." So the heads of big corporations are called in, the pressure is put on them and we start to run into trouble there. It is a terrible thing to say, but it is reality.

Mr. Haggerty: In other words, we have no other choice but to go to the bargaining table and get the best deal we can get.

Dr. Saywell: I did not say that.

Mr. Haggerty: No, but that is about the way it is.

Dr. Saywell: That is a position that certainly is--

Mr. Haggerty: Is what the Americans have applied to us here.

Dr. Saywell: I would say that those economist friends of mine who, in principle, are all for it, say it is a bad deal, but they are not going to back away. They are still in favour of it, because if that is the best we could get politically, then it is better than no deal at all. It is not a pleasant situation.

Mr. Mackenzie: The irony of that, and yet underlining it, is the fact that some of the major so-called supporters of free trade--and I am thinking now both of the forestry industry and of the steel industry--when you get into hard discussions with them, are not arguing with one of their big sales pitches, which is for further penetration. They are arguing for nothing but protecting the status quo. You wonder where the argument has gone of the tremendous ability to create all this new business, when some of the chief proponents of the deal are arguing that all we are trying to achieve is a protection of the status quo. To me, there is a fair bit of irony in that kind of an attitude.

Dr. Saywell: Of course, those are two industries that saw their future going down the pipe.

Mr. Mackenzie: They are also two, though, that have been able--steel in particular--with some really difficult bargaining to make their case and survive in the past without entering into what we--

Dr. Saywell: But you cannot count on the lobby that the steel industry mounted to succeed again, particularly if the mood of Congress changes.

Mr. Mackenzie: Unless also, of course, the figures maintain themselves. The \$1.25 difference, the last I heard, was a \$1.29 difference now; so in fact they have got better arguments. The other side can get hurt just as well.

One of the things that does disturb me is that the free trade agreement appears to prohibit the provinces from further processing their own raw

materials before they are exported, with the exception, I guess, of the east coast fishing example. I am wondering if you have any comments on that, or if you see that as not being a problem in terms of what we might do if we really had the expertise.

Dr. Saywell: I have not read the complete text of the agreement. I did not get the impression that you could not forward resources, as long as there was no discrimination against the United States as opposed to domestic consumers.

Mr. Mackenzie: That is one of the first points that some of our research people tagged for us.

Mr. Neumann: Is there an advantage for the Americans to pass the omnibus trade bill before passing the approval of the free trade agreement?

Dr. Saywell: I do not know.

Mr. Neumann: Does that then enshrine their legislation?

Dr. Saywell: Nothing I would say on that would be of any value because I simply do not know.

Mr. Neumann: What stimulates the question, Mr. Chairman, and perhaps we can get someone to answer it, is that in one of the articles you distributed, it says: "White House officials are trying to convince congressional leaders to start formal consideration of the deal much earlier than now planned. Congress does not want to see the deal until June 1 at the earliest. In reality, though, Congress wants to finish work on its sweeping new trade bill before it starts to tackle the Canadian pact."

Mr. Chairman: Presuming there might just be a voice vote, because there have not been any bills. We will find out. I am not sure, what it is you wanted us to find out, Mr. Neumann.

Mr. Neumann: Does the free trade agreement enshrine existing legislation? It sort of grandfathers existing trade legislation in each country and then binds each country to co-operate in drafting further trade legislation beyond that point. What I am saying is, do the Americans create an advantage for themselves, does the Congress create an advantage for itself by dealing with its new trade bill before approving the free trade agreement, since in the United States it does not become effective until Congress has approved it?

Mr. Chairman: We can get some advice on that perhaps from people who are more familiar with the American constitution.

Dr. Saywell: I do not think it has anything to do with the constitution; I think you are speaking politically.

Mr. Chairman: No. It is really the trade bill, I suppose. One of the things that I know is of concern in this respect is that we have a tendency in our legislative process in Ontario, and federally as well, to draft new bills and simply amend the old bill out of existence, perhaps in the last paragraph in the bill. The United States tends to take bills and amend them ad infinitum.

There is some concern that, when we bring in a new piece of legislation, it may be presumed to be in accordance with the trade agreement in respects we have not even thought of, whereas the Americans, in amending an old piece of legislation that predates the trade agreement, might be presumed not to be so doing.

Professor, perhaps you have some views on that. I would be interested in hearing some views, because I know it is of some concern to the province.

Dr. Saywell: I am not sure that I know. Certainly, in our general approach to legislation, it is reviewed by the courts. A bill is supposed to have a natural unity, whereas in the United States you can tack a trade bill on to a bill to licence dog catchers, so that they have much more freedom to suddenly throw something at us than we would.

If their omnibus trade bill goes through and it is law, that is what is looking at us. So your question is really, does that affect our position? I think so, because now we know the future, there it is, and we can start to look at what that means to us so that the pressure on us to go ahead with the deal would be much greater, I would think.

Mr. Chairman: Thank you very much, sir. I appreciate it and I know the whole committee appreciates you coming to share your views with us and your expertise. It is obviously a very difficult matter for us to consider.

Members of the committee have been passed a memo which resulted from a subcommittee meeting that occurred yesterday. I think there is one inaccuracy, in that I think the subcommittee proposed that we discuss free trade during the week of February 1, as opposed to the budget, the budget to begin February 15. Carried.

We will see you Monday afternoon, January 18. If anyone has any comments to make with regard to who should be invited, get back to myself, Mr. McLellan or Mr. Carrozzo as quickly as possible.

Mr. Mackenzie: What about next Tuesday or Thursday?

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Mr. Chairman: I do not know. The House leaders only gave us permission to sit this Tuesday, and we declined that because of the trade debate in the House. I do not know what they are deciding today about next Tuesday. If we are still sitting next Thursday, we will certainly have lots to talk about.

Mr. Ferraro: I am just curious. Is the committee at this juncture ruling out any other travel except to Washington?

Mr. Neumann: Tokyo?

Mr. Ferraro: I alluded earlier to some of the discussions involving GATT. We have been to Washington three times, and I guess the argument can be made that maybe we should go back again; but from a personal standpoint, I think we should be devoting some energy to other areas.

Mr. Chairman: I think your argument has some merit, Mr. Ferraro, especially in view of our province's concern to expand Canadian trade with

other parts of the world. Mr. McLellan made some inquiries as to what is happening in GATT. In fact, today GATT will be publishing its schedule for the winter season.

The Uruguay round commenced about a year ago, and the countries are now discussing certain areas of concern among themselves and negotiating, I presume, on a bilateral basis all over the place in the GATT headquarters in Geneva. They are dealing with certain clumps of issues or sectors, as they did in the fall. We will find out in the spring--we will find out after today, I guess--which ones will be dealt with in the future.

Mr. Ferraro: Maybe the committee can subsequently look at the schedule and either reconfirm the present schedule or look at alternatives. I guess the point I wanted to make is, is it hard and fast that that is what we are going to do?

Mr. Chairman: I do not think it is hard and fast. The budget was passed with the Board of Internal Economy making no comment, frankly, on what was proposed as moneys for a Washington trip. The time that we have suggested we would prefer to go to Washington--that is March 7, in view of Mrs. Oberstar--will not be the key time. She thinks the week of February 29 will be more appropriate. That conflicts with our need to get something done on the budget, in the view of the Treasurer, before the end of February. Whether there is any value in going in March, I do not know. We will have to keep you posted, and I am certainly interested in all your views. It may be preferable, but the place to deal with the GATT, apparently, would be Geneva.

Mr. Neumann: Did you or the committee make any progress in getting the House leaders to agree to regular Tuesday afternoon sessions when the House is in session?

Mr. Chairman: I think we have more sympathy from the House leaders that we had perhaps a week or two ago. I had prepared a very tough letter to everybody on the subject and I pulled it back last Thursday morning because I thought maybe something would happen in any event. I will prepare that letter with a little less heat in it and send it to them. I expect that the House leaders will look afresh at the whole apportionment of time during the course of legislative sitting. I understand they are very sympathetic to our having as much extra time after the February 8 sitting week as we wish. This is why I reconvened the subcommittee this week, and we ended up asking for one more week. I believe we will be asking for four weeks subsequent to February 8, as opposed to three. I am very hopeful that they will be discussing us in a global way very soon. I did not think this week was the most opportune week for them to do that because there are a lot of other things on everyone's plates.

The committee adjourned at 12:06 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

MONDAY, JANUARY 18, 1988

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Beer, Charles (York North L) for Mr. J. B. Nixon

Sterling, Norman W. (Carleton PC) for Mr. Villeneuve

Also taking part:

Marland, Margaret (Mississauga South PC)

Clerk: Carrozza, Franco

Staff:

Anderson, Anne, Research Officer, Legislative Research Service

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Industry, Trade and Technology:

Lavelle, Patrick J., Deputy Minister

Latimer, Robert E., Special Trade Policy Adviser, Office of the Premier

Delagran, Leslie, Manager, Trade Policy

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Monday, January 18, 1988

The committee met at 2:08 p.m. in committee room 228.

TRADE WITH UNITED STATES

Mr. Chairman: The standing committee on finance and economic affairs is commencing today its detailed discussion of the Canada-United States free trade agreement, which has been signed by the Prime Minister and the President of the United States. To my knowledge, this is the first real legislative look at the actual text of this agreement. I am not aware of any legislative body in the United States that is looking at it in detail at this moment. Of course, the Congress will be doing so later. I understand there is a federal Senate committee that is looking at it in some detail, but I have great expectations for the hearings that are going to be occurring over the next several weeks for this committee to look very carefully at the details of this particular text.

This afternoon, following the presentation from the Ministry of Industry, Trade and Technology, we will have some time to discuss some housekeeping matters, including scheduling. I know some of you are concerned about the fact that hearings have been scheduled to include Fridays, which is normally a constituency day, and you may wish to discuss how we can try to avoid that, if possible. I also have a motion from Mr. Sterling that we can discuss at that time.

Mr. Sterling: I would like to discuss that motion right now, before we start the hearings, because I think it is important that we get these hearings off on the right step in terms of how we are going to approach these particular hearings. Therefore, I would like to put the motion forward right at this time.

Mr. Chairman: Mr. Sterling, we have made arrangements to have public hearings. We have guests here who are prepared to make a presentation. I think your resolution would get a more thorough hearing at a later time if we did not have the pressure of impending witnesses waiting.

Mr. Sterling: Mr. Chairman, it has been my experience over the past 10 years that when we have a witness who comes from outside the government we normally ask the committee to carry on, but in this circumstance--it is not downplaying Mr. Lavelle's very important role in this government. I believe the political process should still come before the public servants who are involved. I think it is important that Mr. Lavelle understand the attitude of this committee as we go into the free trade hearings. Therefore, I would like to put my motion forward at this time.

Mr. Chairman: Mr. Sterling moves that for the purpose of fulfilling its terms of reference as set out in the referral motion passed by the House on Thursday, January 7, 1988, this committee does not consider itself bound by the opinion of the House as passed in government motion 8 on Wednesday, January 6, 1988.

I hope the committee can get off to a good start, Mr. Sterling, but I am going to rule your motion out of order at this time. I am prepared to consider it later in the afternoon.

Mr. Sterling: On what grounds are you ruling it out of order?

Mr. Chairman: It is simply that it is raising a whole new issue we were not scheduled to deal with at this time. We are scheduled to deal at this time with the views of the Ministry of Industry, Trade and Technology on this bill. The issue of scheduling was left in the hands of the chair by spokespersons of each of the three parties and I made certain decisions on their behalf which were relayed to you prior to today.

Mr. Sterling: Mr. Chairman, this is a procedural motion dealing with the general procedure and I am not certain on what grounds or what standing order or whatever you are referring to in terms of not dealing with this motion at this time when it is raised. I would like to know what standing order you are relying on and what decision of this committee in terms of scheduling you are relying on before you rule my motion out of order.

Mr. Chairman: The motion does not look to me to be procedural. It is quite substantive in its nature. I really do not think there is any point in getting into discussing whether or not it is substantive or procedural, but it seems substantive to myself. I am not anxious to open debate on this subject at this time. I see Mr. Mackenzie's and Mr. Neumann's hands up. I will take one comment from each as they happen to represent the other two parties.

Mr. Mackenzie: I also wanted to know on what basis it was really being ruled out of order. I am not sure a motion can be ruled out of order without being dealt with in a committee at any given time. Notwithstanding the scheduling arrangements, it seems to me that my experience in committees is that we have had motions moved in a number of different committees at a number of different stages of debate in those committees. The chairman might be better advised to deal with the motion.

Mr. Chairman: My reasoning, Mr. Mackenzie, was that as I see this motion, it has to do with government motion 8 which was passed in the Legislature on January 6.

Mr. Mackenzie: You have an option to rule it out of order if you feel it is not in order, Mr. Chairman, but I am not sure you can rule it out without giving some specific reason. That is the point I am making to you. I am not passing judgement on it.

Mr. Chairman: I think that is a fair request. My reasoning is that it would raise debate on that particular motion and its bona fides at a time when we are scheduled to deal with the specifics of the trade agreement. I am quite prepared for this committee to look at it, but I am of the view that it should be done at a proper time this afternoon.

Mr. Neumann: Mr. Chairman, might I suggest that rather than getting into discussion of whether or not a motion is in order, a simple motion to table it until later this afternoon might be a better approach to the matter.

Mr. Sterling: I have a motion on the floor, Mr. Chairman. In my 10 years, I have never heard anyone say that a motion cannot be dealt with because there is a schedule. When a member of a committee puts forward a motion, he has the right for it to be dealt with.

Mr. Chairman: I have not said it was not going to be dealt with. I am talking about when it is going to be dealt with. If it is more amenable to the committee to use the term "tabling," I suggest we use that term and it will be dealt with later this afternoon.

Mr. Sterling: I am not tabling any motion. I am putting a motion before the committee to be dealt with. I think I have every right as a member of the committee to have a motion dealt with, unless you can say for some reason, in terms of the rules of the House or the rules of the standing committee, that it should not be dealt with.

Mr. Chairman: I have given my reason and I am prepared now to carry on with Mr. Lavelle and the Ministry of Industry, Trade and Technology. With Mr. Lavelle this afternoon--

Mr. Sterling: I want to know for what specific reasons you are not dealing with my motion now in terms of the rules of the House or the rules of the standing committee. You do not have the right to gerrymander me around as a member of this committee to suit your own purposes as a government caucus. You do not have that right.

I have a right as a member of this parliament to have matters dealt with and dealt with in accordance with the rules of the committee. You have not given me a rule. You have given me a rule in terms of the convenience of Mr. Lavelle, and I apologize to him, in terms of the timing. Notwithstanding that, I believe that this motion is important to deal with at the beginning of the hearings after January 7.

Mr. Chairman: I will repeat the reasoning I am using, and you have not been sitting with this committee before. Mr. McCague, who is sitting to your left, was the Conservative member of a subcommittee which met with me and which delegated to me the power to make the schedule for this hearing this afternoon, and I utilized that power.

Mr. Sterling: That does not give you the authority.

Mr. Neumann: On a point of order: I apologize if my point is not well taken as I am new at the proceedings. My understanding is that you have made a ruling that the motion is not in order.

Mr. Sterling: He has not made a ruling that it is not in order.

Mr. Chairman: I have simply made a ruling that we will deal with the motion later this afternoon. You have suggested the word "tabling" might be in order.

Mr. Neumann: Have you made a ruling or not?

Mr. Chairman: Yes, I have.

Mr. Neumann: You have made a ruling that it is not in order?

Mr. Chairman: I have made a ruling that we will deal with it later this afternoon.

Mr. Neumann: That is not in order at this time?

Mr. Chairman: The committee can overrule me on this.

Mr. Neumann: That was going to be my point. I do not feel any debate is in order unless someone is challenging your ruling.

Mr. Sterling: I am challenging his ruling.

Interjections.

Mr. McCague: Mr. Chairman, you have made reference to the fact that you were given the powers by the subcommittee to set the agenda for this, and in that you are correct; but that does not prohibit any member of the committee at any time raising the kind of motion my colleague has raised, in my personal opinion from anything I have seen in my term of office here. As a result of that, I think you are duty-bound to deal with this.

You will recall that this agenda was set without times. There was no time for Mr. Lavelle to appear before us, as pleased as we are that he is here, and I am sure he is too. We talked about this about three to four weeks ago, and a lot of things have happened since then. I suggest to you that my colleague's motion is entirely in order and that it should be dealt with.

Mr. Ferraro: With respect to my colleagues, there is obviously a difference of opinion. My understanding of your statement is that you would like the committee to deal with this later on this afternoon without saying or indicating the outcome of the motion, which to some degree, I might add, I have some personal support for, with perhaps some massaging of words. As well, with great respect, in order to proceed with this afternoon's deliberations, what is in order now, because your ruling has been challenged, is a vote, and maybe we can get on with the proceedings.

Mr. Chairman: That is the way I am understanding the situation and I am prepared to listen to more debate on a challenge of my ruling.

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Mr. Mackenzie: I am not an expert on the rules and I have never claimed to be, but your ruling disturbs me. Other than the time frame not being adequate, you never gave a reason. I think a motion is in order at any time.

You have put us in a very difficult position here that may have some serious implications in terms of committee work. I think you should have given a reason for ruling it out of order. If that reason did not suit the member, he can challenge your ruling, and that is the process that we may now be in through the back door, sort of, but you did not give a reason why his motion was not in order. I am not sure you are right that it is not in order.

Mr. Ferraro: I am no expert on the rules either. Indeed, my colleague is probably more familiar with them than I am, but two things come to mind.

First, in my view, it does not make that big a difference to the motion whether it is dealt with now or in an hour or an hour and a half, whatever the case may be.

Second, it has been my experience that if someone has a motion, out of courtesy if for no other reason, he usually gives advance notice.

Again, that is an addendum. What we are dealing with here is the timing of Mr. Sterling's motion. I suggest with great respect to my colleagues that whether it is now or in an hour and a half it blends in with your statement, Mr. Chairman, that for all intents and purposes and in order to have the delegation not succumb to drowsiness or whatever when we are debating this motion, it might be most expedient for them to be able to get back to work--and out of courtesy.

Mr. Chairman: Is there any other discussion?

Mr. Sterling: I think I have stated my position, Mr. Chairman. I do not think you have given any reason for postponing the motion. I guess my next motion again is to now put the question. If you are not going to allow debate on this particular question, then I am going to have to ask you to put the question to the committee right now without having debate.

Mr. Chairman: We are in the process of a debate, Mr. Sterling, on your challenge of my indication to the committee that I am prepared to entertain this motion later this afternoon. That is, I believe, what we are debating now.

Mr. Haggerty: I just wanted to say that I do not think the chairman is here to muzzle the person who presented the motion to hear his side of the story on the matter of whether we should proceed or not this afternoon. What I would perhaps suggest is that if he wants to move it, then I shall move an amendment to the motion that the motion be heard at five o'clock this afternoon and we will have debate then.

Mr. Ferraro: You are saying the same thing. Let us just vote, Mr. Chairman, and get on with it.

Mr. Chairman: Is there any other discussion. Do you all understand?

Mr. Sterling moves that the question now be put on the motion.

Mr. Beer: I just want to be clear on what we are voting on here, Mr. Chairman. Are we voting on the motion that Mr. Sterling has put or are we voting on your ruling that we should deal with this later?

Mr. Chairman: We are voting on Mr. Sterling's challenge to my ruling that we will deal with it later.

Mr. Sterling: I am going to then move that the question now be put on my original motion.

Mr. Chairman: You can raise that after we have had a vote on the challenge.

The vote will be on my ruling that the motion by Mr. Sterling be dealt with after the presentation of the Ministry of Industry, Trade and Technology. All those in favour of my ruling will raise their hands.

Mr. Sterling: Is this a recorded vote?

Mr. Chairman: If you ask for one, you can have one.

Clerk of the Committee: Mr. Haggerty, Mr. Ferraro, Mr. Beer--

Mr. Sterling: I did not ask for a recorded vote. Do you realize that? I want 20 minutes in order to get our members in here, please. I want 20 minutes to get my members in here and then take a recorded vote.

Mr. Chairman: All right, you have the right to 20 minutes.

The committee recessed at 2:22 p.m.

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Mr. Chairman: The meeting will now come to order. The issue that we are to vote on is the issue as to our schedule this afternoon.

Mr. Ferraro: Mr. Chairman, if I may interject, I have given the clerk of the committee a motion that I would like introduced to the committee and would request that it be dealt with subsequent to the appearance of the delegation today. I felt that it was conducive to the operation of the committee. I apologize for not giving advance notice, but quite frankly, it was a result of the action of Mr. Sterling. It is by no means an attempt to prejudice the motion that we are going to deal with now.

Mr. Chairman: All right. The motion has been received. The chair would again suggest that it be considered subsequent to Mr. Sterling's motion.

The issue that we are prepared to vote on at this moment, if I can make it as clear as possible--and Mr. Sterling, if you wish to comment on what I am about to say, please do so--is essentially my ruling that the schedule for this afternoon should be the presentation of the Ministry of Industry, Trade and Technology followed by Mr. Sterling's motion. I would indicate that I would then entertain Mr. Ferraro's motion after Mr. Sterling's motion.

If you vote in favour of that, you would vote yes. If you vote no, you would be accepting Mr. Sterling's challenge to that, and the result would be a discussion of Mr. Sterling's motion at this time. I am going to invite comment from Mr. Sterling only in case he has any comments on that, since I have made that comment subsequent to cutting off debate.

Mr. Sterling: Thank you, Mr. Chairman. To clarify my objection or challenge, my challenge is based on the fact that a member of a committee has a right to bring a motion at any time if he gets the floor and the motion is in order. There is no power in the chair to postpone that motion unilaterally. That is why I am challenging this particular ruling.

Mr. Mackenzie: Mr. Chairman, I think this does leave a very serious point in question. What I would like your ruling on is whether or not a vote--

Mr. Chairman: This is a point of order then?

Mr. Mackenzie: Yes, it is. I would like your ruling on whether or not a vote on this motion would sustain your ruling that a member could not move a motion at any time in committee. That would be a very dangerous precedent in this Legislature; as a matter of fact, an unheard-of one.

Mr. Chairman: I hope, Mr. Mackenzie, I have not given the impression that a motion cannot be brought at any time. I am quite prepared to hear Mr. Sterling's motion and Mr. Ferraro's motion and to allot as much time as this committee wants to hear both motions.

Mr. Mackenzie: You understand why I raised it. The implications are truly serious.

Mr. Chairman: Yes, I do, Mr. Mackenzie and there is certainly no intention on the part of the chair to suggest that the chair can rule a substantive motion of this nature out of order.

Does everyone understand the vote? All those in favour of the motion?

All those opposed?

Motion agreed to.

Mr. Chairman: The schedule for this afternoon will be the hearing of the presentation from the Ministry of Industry, Trade and Technology, followed by Mr. Sterling's motion, followed by Mr. Ferraro's motion.

We have with us from the Ministry of Industry, Trade and Technology, the deputy minister, Pat Lavelle. We have as well, to Mr. Lavelle's right as we look at him, Robert Latimer, who is the special trade policy adviser, who was the province's representative to the trade negotiation office during the course of the trade negotiations. To Mr. Lavelle's left, as we look at him, is Leslie Delagran and to the far right as we look at him, is David Barrows, from the Ministry of Industry, Trade and Technology.

Mr. Lavelle has some comments he wishes to make and then we will open the proceedings up to questions.

Mr. Lavelle: Thank you very much, Mr. Chairman. I apologize first of all for the fact that we do not have a written statement but I do have a number of things I would like to say and I will try to be as brief as possible in making my comments this afternoon.

This is as I recall, the fourth or fifth time that I have been before this committee and we come today at a time when the final agreement and the final text of the Canada-US agreement has in fact been signed by both the Prime Minister and the President of the United States.

Therefore we would like to take this opportunity to not only look at the highlights, but also to try and put into context the advice we have been putting forward in the Ministry of Industry, Trade and Technology, with respect to various issues that arise.

I do note however, that there will be a number of other deputy ministers and representatives of various ministries of the government who will be coming before this committee in the ensuing days and we will attempt to not duplicate what they may or may not say in the course of their appearances.

First of all, I think it is important to point out, as we always do, the importance that trade and international trade has to the Ontario economy. Of course the United States is Canada's most important trading partner and Ontario's dependence on the US market is even more striking when we consider that about 90 per cent of our merchandise exports are destined for that market, compared to only 77 per cent nationally.

As everybody knows, the automotive industry accounts for about 56 per cent of Ontario's exports. This data indicates why Ontario seeks greater diversification in both its trade and trading partners. Although Canadian

tariffs have declined significantly since 1945, and world trade has grown dramatically, Canadian manufacturing productivity remains, on average, below that in the United States. The competitiveness of Canadian manufacturing in recent years is largely the result of the depreciation of the Canadian dollar, and does not reflect an ability to close the gap in productivity between the two countries.

One way the federal government has sought to address the issues of market access and competitiveness, has been through the negotiation of a free trade agreement with the United States. Ontario supports trade liberalization as one of the conditions to achieve improved competitiveness. The Ontario government has always supported the objective of seeking to achieve increased and secure access to the United States.

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Ontario has, over the course of these negotiations, raised concerns about the federal negotiating approach and the possible cost of such an arrangement between the two countries. The assessment of the free trade agreement is based upon the extent to which US market access has been improved, Canadian economic competitiveness is promoted and the policy flexibility is maintained.

Negotiations, by definition, require tradeoffs. Ontario recognized that it is not realistic to assume that all the objectives can be fully attained. However, as a result of a detailed assessment of the agreement, the government of Ontario concluded that the agreement did fall short of Canadian and Ontario objectives. Today, on behalf of the Ministry of Industry, Trade and Technology, I plan to discuss the role of the province in the trade negotiations process and then elaborate in some detail Ontario's assessment of the agreement in terms of its economic impact and the province's interest and concerns in some of the areas negotiated.

Historically, the provinces have exercised relatively little direct influence on the formation of negotiations of national trade policy. This is due to the fact that initial post-war trade negotiations largely focused on tariff reductions. Today, and particularly as a result of this negotiation, the provinces are clearly involved in a wide range of programs, policies and practices that could be seen to influence trade flow. For this reason, the federal government involved the provincial governments in the Tokyo round of the General Agreement on Tariffs and Trade negotiations through a formal federal-provincial discussion process.

With respect to the free trade negotiations, at the first ministers' conference in Halifax in November 1985, Prime Minister Mulroney agreed to the principle of full provincial participation in bilateral trade negotiations with the United States. At this conference, Ontario tabled a proposal calling for the establishment of an organizational structure, which would ensure a co-operative federal-provincial process to deal with these international negotiations, but this process was not adopted. Instead, at the beginning of January 1986, a Continuing Committee on Trade Negotiations was established under the chairmanship of Ambassador Simon Reisman with representatives from each of the territories and the provinces.

The federal government retained exclusive jurisdiction at the negotiating table. As you pointed out, Mr. Chairman, Mr. Latimer was the

representative of the provincial government at the meetings of the Continuing Committee on Trade Negotiations. The principal forum of consultation with the provinces during the course of the negotiations was the quarterly first ministers' meetings. These were supplemented with regular meetings of the Continuing Committee on Trade Negotiations made up of trade representatives of the province. However, despite these mechanisms, the provinces only became fully aware of the substance of the agreement with the release of the elements of the agreement on October 4 of last year and the subsequent legal text in December. In that period, and before that period of time, there was very little direct consultation between the provinces and the federal government.

Ontario's broad interests in the negotiations were briefly as follows: the potential to reduce US protectionist actions, thereby securing and enhancing access to the US market; enhanced access to US federal and state procurement to increase market opportunities for our Canadian exporters; and the elimination of US tariffs affecting Ontario exports. If the negotiations were successful, the achievement of these objectives held the possibility of increased capital investment resulting in the rationalization and specialization of the performance of various industries, consumer benefits, accelerated economic growth and more predictable and secure access to the United States market.

However, Ontario had major concerns about the possible outcome of negotiations as a result of the unwillingness of the US to acknowledge Canada's differences in industrial structure and, therefore, inability to negotiate the capacity for Canada to develop unique industrial and regional development programming; greater US economic size, leading to an unbalanced negotiating power; US objectives to limit investment and service sector policy and federal willingness to make concessions in this area; sectoral concerns which were very much a part of the negotiating process in autos, agriculture, alcoholic beverages and cultural industries; the need for adjustment programming for sensitive sectors, such as labour and some single-industry communities; branch plant diversification; and the negotiability of Canada's key objectives, namely, that exports to the United States are not subject to the continued trade harassment which has been the case in the matter, for instance, of softwood lumber and other Canadian products.

During the negotiations, Ontario conducted a series of consultations with the private sector groups in order to determine the impact of this agreement on the Ontario economy. The Ministry of Industry, Trade and Technology used these consultations to evaluate the potential strengths and weaknesses of Ontario's manufacturing and service industries and how they might respond to tariff reductions and other trade-related adjustments. The consultations, which were carried on in the early part of 1987, led to a free trade conference organized by the ministry in March of that year, which was addressed by a number of private sector representatives and also by the federal deputy trade negotiator Gordon Ritchie.

As we know, most US-Canada trade is already duty-free. About 72 per cent of Canadian-manufactured imports from the United States and 73 per cent of US-manufactured imports from Canada were free of customs duty. At the same time, average Canadian tariff levels on dutiable imports are about 2.5 times higher than the US levels. The elimination of these tariffs would be expected to lower costs for Ontario industries on imports from the United States, as well as reducing consumer prices for certain items. To some extent, this would stimulate aggregate demand and result in an increase in economic activity.

Further, it has been suggested that the removal of tariffs would encourage Canadian manufacturers to rationalize and modernize their operations, leading to increased international competitiveness. The latter type of benefits, however, hinge on a set of assumptions, some of which may be invalid for Canada. Increased competitiveness may not directly result from tariff decline for a number of reasons.

First, many Canadian firms have little or no foreign marketing experience and start from a noncompetitive cost base. Second, the high level of US control of Canadian companies could involve corporate impediments to Canadian penetration of the US market. Finally, there are a number of diseconomies that Canadian firms have to overcome in areas such as product development, production, finance, distribution and marketing.

Sector consultations held by MITT with a wide range of manufacturing industries have indicated the presence of widespread sensitivities to increased import competition from the United States arising from tariff elimination. This raises concerns for the potential for serious employment disruption in certain industries and communities across the province.

I make these comments knowing full well that while there were committees and internal and external reports published by MITT, there were a number of other studies, one conducted by the Economic Council of Canada and another conducted by Informetrica, which had different assumptions and came to different conclusions with respect to the impact on the jobs that would be affected by a free trade agreement.

The most recent study, the 1988 federal Department of Finance study, concluded that only 120,000 net new jobs would be coded over the first five years as a result of the agreement. This represents a significant reduction in the expected net new jobs in comparison to studies released before the free trade agreement was signed.

I make reference again to the fact that the Economic Council of Canada estimated that there would be 350,000 jobs created as a result of the agreement. Informetrica reduced that to a range between 150,000 to 250,000 and the Department of Finance had a further study which indicated that the improvement, or the number of jobs that would be provided by this agreement, was 120,000. What the conclusion may be is that none of the studies has been conclusive in determining what the impacts would be, but the range is significant on both sides of the scale.

In any event, the economic evaluation of the net impact of bilateral tariff elimination likely overestimates the total positive employment effects of a free trade agreement. In particular, the possible costs and benefits are highly sensitive to changes in assumptions, overall economic conditions and individual firm behaviour. Many of these macroeconomic assumptions, such as productivity gains and full mobility of labour and capital, are highly questionable.

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To date--and I would like to deal with this--the evaluation of the Ministry of Industry, Trade and Technology of the implications of this agreement for Ontario manufacturers has been based principally on industry-specific analyses, including extensive consultations with industry associations. The results of the analysis undertaken by the ministry have identified widespread sensitivity among Ontario manufacturers to further import penetration from the United States, such as this agreement.

These industries employ about 400,000 people in the province and they are identified as: scientific and professional equipment, miscellaneous electrical products, fruit and vegetable processors, major appliance manufacturers, household furniture industries, sugar and chocolate confectionary industries, clothing manufacturers, footwear manufacturers, brewery products industries and the wine industry.

There are concerns that a number of these industries are scheduled in the trade agreement for immediate or five-year elimination of tariffs. We have not said in any of the reports that all of the employees who would be affected in total or who are employed, the 400,000, would lose their jobs. We have simply said that these are industries which are highly import sensitive, and after consultations with the industries and looking at our own analysis, we have indicated what those industries are.

Canada began the negotiations seeking to eliminate US actions against Canada which harass exports and reduce the incentives to invest in this country. The federal government assured the provinces that an agreement that did not provide assured access to the US market, including circumvention of application of trade remedy laws while maintaining Canada's ability to promote regional development, would be unacceptable to Canada. The key federal objective of obtaining secure and enhanced access to the US market has not been met by the proposed Canada-US free trade agreement, in our opinion.

US countervailing duties and antidumping penalties can continue to be applied against Canadian exports in the same fashion as before the agreement. Moreover, the binational tribunal to appeal such duties fails to afford any significant net benefit beyond the current situation of appeal to US courts and the General Agreement on Tariffs and Trade. Some have argued that the free trade agreement is the best deal it was possible to negotiate. It is ironic that the feasible deal Canada achieved is one which essentially preserves the status quo in terms of key Canadian objectives to obtain relief from US trade laws and to gain access to the US government and procurement market.

In terms of dealing with the specifics of the dispute settlement mechanism, that is a subject that we can obviously address in terms of questions from the committee. But I think it is very important to understand that in terms of the agreement on dispute settlement there will be a provision and there is a provision in the law for further US-Canada negotiations over the next five to seven years to change Canadian and US trade laws and procedures and reach agreed definitions of acceptable subsidy practices.

However, further concessions will likely have to be made by Canada to achieve these objectives, such as constraints on the use of government programs to assist industry, promote research and development and technology and aid adjustment of regional development. There is no guarantee that these negotiations will be any more successful or any less difficult over the next five to seven years than the failed subsidy and countervailing negotiations over the past two years.

The point I am making at that particular point is, it was expected in the negotiations on subsidies that there would be an agreement reached during the course of these negotiations. That proved to be impossible because of the very difficult nature of trying to adjust in both countries to a level playing field in this particular area. It will be difficult, in view of those negotiations, to see how those agreements can be reached over the next several years.

If agreement is not reached on definitions and new rules to govern countervailing duty and antidumping remedies, then either party can abrogate the agreement. However, abrogation is far more significant for Canada, given the magnitude of the restructuring required by the agreement, putting Canadian negotiators in a difficult position. Furthermore, the US Congress is currently considering major changes to US trade law which threaten to increase the frequency and likely success of US trade actions against Canada.

At the present time, it appears that the proposed omnibus trade bill will apply to Canada and it is unclear the extent to which implementation of the FTA could insulate Canada from the provisions of the proposed trade bill. However, it is our understanding that the US administration will not undertake to protect Canada from provisions in the trade bill that are not prohibited by the FTA. These would include changes in the US definition of unfair trade practices under section 301 and the strengthening of US industries' position in intellectual property cases.

The expectation, according to the information that we have received, is that the omnibus trade bill presently in conference in both the House and in the Senate will attempt to try and provide a final piece of legislation which will be acted upon, perhaps before April 1, which means that the omnibus trade bill will in fact be in place before any negotiations or any kind of consideration by the Congress. Therefore, nonspecific items that are in the omnibus trade bill and not specifically mentioned in the FTA would be impacted by this decision.

Of particular importance to Ontario is the ultimate impact on the automotive industry, which, directly or indirectly, employs one in every five persons in Ontario. The free trade agreement seriously weakens the most substantial underpinnings of the safeguards from which the province and the country have benefited over the past several years. At the same time, the agreement constrains the ability to use a variety of measures to attract foreign automotive manufacturers to invest in Canada and reduces incentives for these manufacturers to achieve substantial levels of Canadian content.

The elimination of the tariffs and the change in the rules of origin from Canadian to North American remove any incentive for US or third-country assemblers to buy Canadian parts. While the current law does not satisfy the Canadian parts industry, it is hard to imagine how the only sizeable group of Canadian-owned producers in the automotive industry will benefit ultimately from the agreement. Furthermore, the Japanese vehicle industry is unhappy with the Canadian auto policy which treats one set of foreign investors differently than the others. I might point out that it treats certain companies within that foreign industry differently than other companies. Investment by the Japanese producers could be deterred by this agreement in the long term.

The proposed trade deal significantly constrains Canada's sovereignty in the energy area. It has important implications for provincial authority as much as federal responsibility. As well, the agreement does not directly address some of the regulatory practices in the United States which constrain Canadian energy exports and the deal does not appear to constrain them.

Under the free trade agreement, energy pricing policies will be determined in large part by what is occurring in the US market. In times of surpluses, such as now, prices will be low. In times of shortages, prices could indeed be high. In addition, the development and pricing of our energy has been used on a number of occasions by governments to enhance regional economic development.

The proposed trade deal also represents a significant reduction in Canada's ability to screen foreign investment to ensure that it is in Canada's economic interest. Canada will no longer be able to request best efforts to source domestically or other measures to encourage foreign investors to contribute to Canadian industrial development.

The free trade agreement also contains provisions constraining the manner in which governments could regulate domestic service industries in the future. Canadian governments will be able to regulate in a fashion that differentiates between domestic and US providers of a service so long as any differentiation is no greater than necessary for such matters as consumer protection, prudential, fiduciary or health and safety reasons, and its equivalent in effect.

Further costs of the agreement include loss of tariff protection without a comprehensive adjustment package for those workers, industries and communities most hurt and loss of support for the Ontario wine and grape industries. Indeed, the paper released by the Department of Finance last week indicated that the federal government will not be augmenting adjustment programs. The cultural sector is formally excluded from the agreement but this agreement provides for US retaliation against domestic policies and programs which promote the cultural sector.

The trade agreement purports to effect major changes in provincial powers, regardless of whether the provinces consent. Analysis by the government of Ontario indicates that the proposed trade agreement deals very substantially with matters falling under provincial jurisdiction. This should be a matter of profound concern for all Canadians who look to the provinces for social and economic initiatives.

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The Ontario government and the Ministry of Industry, Trade and Technology are continuing to pursue the issues of increasing productivity and competitiveness through emphasis on technological upgrading and increased investment.

Foreign market access and diversification of markets remain a key priority. This involves active support of the trade liberalization under the General Agreement on Tariffs and Trade.

Canada's participation in the Uruguay round of the GATT negotiations is an important opportunity for preserving and enhancing access to all of Canada's markets, including the United States. It is anticipated that the current round will be the most comprehensive ever, and in addition to trying to increase liberalization of trade and goods, it will attempt to stem the tide of protectionism, to enhance the dispute settlement mechanisms of the GATT, to strengthen agricultural trade provisions and to extend coverage to new areas, including services.

In summary--and I am very mindful of the clock--there are a number of key issues which will determine the final impact of the free trade agreement. These include the following.

The potential for the FTA to lead to improved competitiveness for Ontario industries is based upon rationalization, specialization and enhanced economies of scale. This will be a function of the capacity of Ontario industry to respond to greater competition from the United States.

In this regard, the significance of competitive disadvantages resulting from Canada's industrial structure, such as the high degree of foreign ownership, low research and development and slow adoption of technology, must be taken into account.

At the same time, the scope for governments to respond to special problems faced by the Canadian situation, such as the need for industrial policies and adjustment assistance, is vital in determining the ability of industries to respond to larger markets.

Despite the disparity in tariff levels and the different industrial structures between the two countries, there is no differentiation in the tariff reduction schedule nor any proposals for major new adjustment assistance for labour, firms and communities that are going to be affected.

The bottom-line issue is the decision-making process of individual firms with respect to where new investment should occur given tariff elimination. Key issues in this respect are the problems of security of access. Ongoing US trade remedy actions harass Canadian exporters, and there is a possible exacerbation of the problem through new US trade legislation contained in the omnibus trade bill. Access to the large US government procurement market has not been achieved. This may have implications for investment location decisions and the ability of Canadian producers to compete, given buy-American policies at the state level.

Major uncertainties remain in the application of the FTA regarding the ability of provinces to manage resources, the constraints on the scope for regulation of services primarily directed to consumer protection, uncertainty about the future direction of the Canadian automotive industry under the terms of the FTA, the implications for provincial government responsibility and accountability within the federal system.

An additional uncertainty arising from the FTA is the extent to which it will increase pressures for extensive policy and program harmonization to ensure Canadian industry is competitive in this new environment. For example, we already see concerns expressed by Ontario manufacturers for tax reform which reflect recent US changes in its tax laws. A free trade agreement between Canada and the United States could significantly increase trends for Canadian harmonization, not only in taxes but in other areas of standards as well.

A further uncertainty remains, of course, the question of interprovincial trade barriers and whether the provinces will be able to move to eliminate some of the discriminatory treatment that exists between the provinces as well as between Canada and the United States.

Thank you very much for your patience in listening to my statement.

Mr. Chairman: Thank you very much, Mr. Lavelle. I have a number of people wishing to ask questions.

Mr. Morin-Strom: After your preamble, which was rather noncommittal in terms of a position on the free trade issue, you did get into a number of specific industries or sectors where the consequences could be very negative indeed.

I think a very critical question to us, though, is: When did you become convinced this was going to be a bad deal for the province of Ontario and for Canada for that matter? I wonder if you could tell us when it was that you came to the conclusion that this was a bad deal and why you were unable to take steps to stop it.

Mr. Lavelle: That is a difficult question. First, I guess the fact is that during the course of the negotiations and since I have been the Deputy Minister of Industry, Trade and Technology we have been meeting with industries to gauge the impact of the potential agreement on them.

Second, in discussions with the federal government and through various committees and research papers that were done internally and externally, we have been attempting to understand where the negotiations were going and what might occur if, in fact, they did come to some final conclusion. So it was not as if a light went on at any particular time. It was a process of trying to understand where the federal government was going and responding to that.

If there was any one particular time when it became clear what had occurred, it was when the elements of the agreement were made public on October 4, 1987. Subsequently, of course, the final text of the agreement was produced by the end of December 1987.

Mr. Morin-Strom: At every point up until October 4, did you believe that the agreement would be beneficial to Ontario?

Mr. Lavelle: In terms of looking at various aspects of the agreement, I think there were always concerns, but not knowing precisely what was being negotiated on the other side, it was difficult to come to any judgements, pro or con. For instance, in terms of the consultations with the federal government, we knew what the position of the federal government was but we did not know what the position of the United States was on any particular points that were being negotiated.

For example, take the whole question of negotiations on the automotive sector. We were told through the process of the negotiations that the auto pact was not on the table. In the final agreement, and indeed in the elements of the agreement, there were substantial changes to the auto pact and the auto industry is going to be affected by those. The same holds true for energy. While we were told it was a possibility that this matter would be addressed in the negotiations, we were not prepared for the rather major arrangement which was entered into in the elements of the agreement. It was a process of watching precisely what was going on and responding to it.

Mr. Morin-Strom: So, in effect, were you supportive of the whole process all the way along and did you feel that you had sufficient knowledge and input into what was being negotiated to continue to support that right up to the October 4 date, with the disastrous consequences of what was in the final agreement?

Mr. Lavelle: I would answer that question in this way: first of all, the decision as to whether the agreement was to be supported or not was a decision that was not made at my level. We were involved in providing advice to ministers and to the government on the various issues that were being negotiated and how they would impact on Canada and on Ontario in specific terms.

In the general question, I think anybody who is involved in trade

generally sees the benefits of an expansion of international trade as a creator of economic wealth, jobs and other economic benefits, so it was not a matter of being concerned about an expansion of trade. It was concern about what the implications meant for the Ontario economy in a deal that was being negotiated by the federal government and not by Ontario.

Mr. Morin-Strom: Prior to October 4, did you ever recommend to the government that Ontario should pull out of its part in the negotiation or the consultation behind the negotiation of this agreement and change its tactics in advance of that October 4 date?

Mr. Lavelle: I do not think I was ever in a position to offer that kind of advice to the government one way or another.

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Mr. Ferraro: Mr. Lavelle, you alluded in your opening statement in a specific reference to foreign investment in the automotive sector, whether it is Japanese or whatever, that further investment could be deterred. Could you elaborate a bit on that degree of sensitivity or your perception subsequent to the January 2 free trade agreement, on the reaction we are getting from our foreign automotive firms?

Mr. Lavelle: I think one has to take a look at what the results of the discussions and the negotiations between Canada and the United States were on the automotive trade agreement. In basic terms, what has occurred is that the arrangement now provides for an auto pact which is specifically oriented towards the North American producers, the ones that were the original signatories to the Canada-US automotive agreement, which provided, for meeting certain conditions in Canada--content and production provisions--benefits to them that had to do with being able to import vehicles and parts from other countries duty-free.

What has resulted as a result of the changes in the agreement is that they have enshrined those provisions for the North American producers and certain third-country producers such as Suzuki, which is in a joint venture with General Motors, and they have left the other producers out of that rather beneficial agreement. Having done so, they have changed the provisions under the auto pact so that a requirement for North American content is mandated, as opposed to a requirement for Canadian content. It is possible under the arrangement--and I am not saying this will occur, but I am saying it is possible--that a North American producer without any Canadian content would be able to ship vehicles into Canada duty-free from a base in the United States. Honda, for instance, can now meet those requirements and ship cars to Canada duty-free with a low level of Canadian content.

The difficulty that some of the Japanese producers are finding is that they have invested in Canada already--Toyota, Honda and others--with the expectation that if they met the auto pact safeguard, they could then import both parts and vehicles duty-free, as their competitors can. Under the arrangement, that is no longer a possibility once the agreement is in effect. The concern that some of the companies have expressed to us is that in making future investments in Canada, they will take this into account. I am not saying that no investment will occur, but it will be a decision that will go against Canada.

The other ingredient that must be taken into account is that if those companies locate in Canada and they want to import components from offshore,

they will have to jump a nine per cent Canadian duty, whereas in the United States if they wanted to do something similar, the duty would be only three per cent. There is a difference there as well.

The final point with respect to the Japanese producers is that in terms of this agreement they are being discriminated against in Canada, not in the United States, and there is an indication that this will be a factor in their decision-making process as well.

Mr. Ferraro: Some of the other factors obviously would be the differentiation between our dollar and the American dollar, labour laws, rates and so forth. Do you have a sense of how we fare at this moment by today's standard when one considers the buck, whatever it is at, 27 cents or something? If I were a Japanese auto firm, would I still want to come to Canada based on what you know today about the dollar, the labour laws and all the rest of it? Would I be in a total quandary or would I want to go to Mississippi or Tennessee? Have you any gut reaction to that?

Mr. Lavelle: At the moment, the general impression I have is that the Canadian economy is a very positive economy for investment, particularly in Ontario. The differentiation in the dollar is a positive one at present with respect to wages, for instance, under the United Auto Workers and Canadian Auto Workers contracts, which leave a differential in the Canadian sense of \$5 to \$6 an hour. However, there are others who will claim that even taking the dollar into account, the wage levels are about equal in Canada and the United States. That decision on whether to invest on the basis of what the rate of exchange is at any given moment is a dicey one for any company to make.

Decisions, I would think, are made with respect to these kinds of investments based on a number of things, not the least of which is the kind of incentives governments offer to the various industries to locate in particular regions, what the long-term climate is going to be for additional investment; and the bottom line would be whether that investor is being treated fairly and equally along with other Canadian producers.

Mr. Ferraro: The last question I have--either Mr. Lavelle or Mr. Latimer or both, I hope, will respond--has to do with interprovincial trade barriers. Can you indicate to the committee what discussions were made along those lines during the negotiations and/or as a result of the deal being signed January 2; whether there are any further discussions, at least in Canada, obviously, on a federal-provincial basis to negate some of these barriers?

Mr. Lavelle: The question of interprovincial trade barriers, and Mr. Latimer can correct me, came up from time to time in the discussions, but there was no attempt in the arrangements between Canada and the United States to try to negotiate away interprovincial trade barriers. What has been going on has been going on under the auspices of the ministers of economic development and trade for the various provinces and the federal government to, first, categorize and list what all those interprovincial trade barriers are, and then try to establish a format whereby they would be reduced over a period of time. That process has been going on for two years without much success.

In recent days, the federal government has appointed an individual by the name of Mr. Grandy, a former Deputy Minister of Industry, Trade and Commerce in Ottawa, to head up a group of secretariats to try to work with the provinces to reduce the trade barriers among the provinces within a certain time frame. That process is extremely slow and painstaking and has not produced too many results.

Mr. Chairman: So there are no present obligations--

Mr. Lavelle: The only obligations there are have been obligations which have been assumed at a meeting of provincial trade ministers in Belleville, I think, in June 1986, in which there was an attempt to try to prioritize certain interprovincial barriers for removal. Alcoholic beverages was one. There were two or three others.

Mr. Chairman: Mr. Latimer, did you have a comment?

Mr. Latimer: Just something to add to it. Incidentally, the question of interprovincial barriers has come up in those discussions between the federal government and the provinces in relation to the US-Canada trade negotiations, based on the implication that if you are going to liberalize trade with the United States in certain areas, government procurement, provincial alcoholic beverages, then you might well be creating a discriminatory system in favour of the United States and individual provinces and against other provinces. The issue was flagged. The issue was declared not to be a matter for negotiation in any agreement between Canada and the United States. That was simply an incidental component that emerged out of it.

I would have said there obviously should be a hell of a lot of pressure to deal with the problem of interprovincial barriers if we are moving into a situation where you would have one province discriminating in favour of US suppliers and against other provincial suppliers. That is as far as it takes it.

Mr. Ferraro: It appears to me, now that you mention it, that it is a blatant case of discrimination. Would either of you gentlemen substantiate that?

Mr. Latimer: It could be.

Mr. Ferraro: It could be. OK.

Mr. Latimer: There is nothing in that bilateral agreement that says you have to maintain discrimination against other provincial suppliers.

Mr. Ferraro: No, but you do indirectly.

Mr. Latimer: If you do not do something, you do.

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Mr. Neumann: Mr. Lavelle, from time to time communities, some times regions of the country, experience economic dislocation resulting from factors well beyond their control.

I speak from experience as the former mayor of Brantford, having gone through literally thousands of jobs lost in farm equipment manufacturing in the early 1980s, combined with the recession of the early 1980s. At that time, our community tapped into federal programs such as the industrial and labour adjustment program and later the industrial regional development program with special designation and managed to replace a lot of those jobs.

What implications are there for communities--perhaps not our community but other communities in the future that face severe economic dislocation--utilizing subsidization programs to encourage investment in specific areas?

Mr. Lavelle: I think there are two factors here. First of all, the implications, as we have outlined them in terms of the studies we have done in various industries and how they impact communities, depend on how the adjustment process goes. In the consolidation of various companies or sectors there is a possibility, as we pointed out, that people will be laid off or that they will lose their jobs.

The expectation is that the federal government would have in place, as a result of its own negotiating arrangement with the United States, a series of adjustment assistance programs and other programs to retrain workers, much as you have referred to in other times. What Mr. Wilson said in his statement of last week was that the existing programs that are in effect are sufficient to meet what he considers to be a demand created by the adjustment process. Therefore, that would be what presumably would be in place.

Mr. Neumann: Could I focus then perhaps more specifically? My question deals with whether the federal government has less power under this new trade agreement to creatively bring in new programs to assist communities and indirectly assist specific industries locating in these communities, or are they subject to countervail under the new agreement?

Mr. Lavelle: These matters are ultimately subject to countervail in any event going into the United States if in fact somebody in the United States raises the issue of subsidization or unfair subsidization.

Of course, as I said in my statement, what is going to occur as a result of the arrangements between Canada and the United States on countervailing duty and antidumping is that there will be a negotiation over the next five to seven years which will attempt to indicate what kinds of practices that are in place or are likely to be in place or will be put in place as a result of the agreement are going to be subject to US action under the dispute settlement mechanism under countervail and antidumping.

To answer your question, obviously, when they are providing assistance, governments will have to be more careful to ensure that it does not draw the kind of retaliatory action on the part of US politicians or interest groups.

Mr. Neumann: I know that in the early 1980s the federal government very quickly developed the industry and labour adjustment program and our community benefited. In the future, federal governments may be limited--by time, perhaps. They may not be able to respond as quickly because they would have to check whether or not the effect of the--

Mr. Lavelle: Mr. Latimer may want to respond to that as well. I would make two comments. One is that virtually, in many parts of the country and certainly in Ontario, ILAP and many other programs such as IRDP have ceased to be a factor in terms of location assistance or other kinds of benefits, so we are looking at a situation in some parts of Ontario where no programs exist at the present time except those that are provincial.

In terms of having to introduce new programs, the federal government will have to take care not to raise the issue of United States countervailing activity.

Mr. Latimer: I would just add one thing. In a sense, nothing has changed. The US countervail law stays there. It is not being abolished. There is some negotiation. If you got some settlements about what are acceptable subsidies and not acceptable subsidies, then you might get a change in US countervail law, but in the meantime, you do not.

The only thing that is different in one sense, and it is not really different, has to do with the dispute settlement mechanism as it relates to the use of countervail action against you. You can flip a coin on that and decide whether it was a plus or a minus for you in terms of recourse to a dispute settlement panel after this agreement comes into effect.

In effect, I do not see any fundamental change in the game. What you are seeing is that the United States people have been having recourse to this kind of contingency protectionism, countervail law, and as long as you get that mood in the United States, you are going to get more and more complaints, probably, in relation to anything that is perceived to be unfair under US theology. It does not change anything but the atmospherics. You blow hot or cold and therefore have impact.

Mr. Neumann: My second question, if I may, deals with energy, and I do tend to agree that it certainly was a major surprise to have the continental energy agreement as part of the deal. Some parts of Canada--and I believe initially Ontario--benefited substantially by having cheap energy as a basis for enhancing competitiveness in industries getting started and enhancing their competitiveness in the world. How does this affect our ability in the future to develop new industries utilizing cheaper energy as a strategy in competing with the United States?

Mr. Lavelle: This is a grey area, and I am sure Mr. Latimer will keep me in some control as I try to answer the question.

First of all, the fact of the matter is that under the arrangement we have with the United States, price fluctuation will occur based on market conditions in the United States. In other words, as I said in my statement, if there is a demand for energy in the United States and prices go up, those prices will be reflected in the domestic prices in Canada. There cannot be two prices within the international context of this agreement.

However, there are safeguards which were put back into the final agreement that were not in the first one, having to do with surplus tests and other arrangements which provide for some security of supply within Canada, based on a continental energy-sharing policy once those surpluses have been identified.

With respect to the whole question of being able to support industrial development, what has not been totally clarified to the satisfaction of everyone is whether energy prices by utilities in Canada or within a province could supply a different price to its domestic customers than to its customers in a foreign market. But there are provisions within that judgement as to what the price is in the domestic market and what the prices are that would be available to the purchaser in the United States.

So I cannot say with total clarity precisely what has been negotiated, but there is an element of being able to identify certain benefits for domestic consumers within a province. But when it comes to the prices of energy--gas, oil--those prices are going to be based on a North American price.

Mr. Neumann: A continental market.

Mr. Lavelle: Yes.

Mr. Neumann: I guess the final question is a very general one. In your opinion, did we give up too much in this deal for what we got, as a country?

Mr. Lavelle: I would have to say that in terms of looking at the deal, the answer to that question is yes. In light of the benefits that we have been able to achieve--and there are some benefits--the costs are extremely high relative to the ability to develop a Canadian economic policy in terms of the arrangements which have been made in energy, the autos, the whole service sector, which we have not discussed; and there are many other elements in which we have had to make concessions and which have not been met, in my opinion, by what has been gained on the other side. That is my own personal opinion.

Mr. Neumann: Thank you.

Mr. Mackenzie: Mr. Lavelle, you can see the danger of perceptions here. I do not know whether you are aware of it or not--you probably are--but there was more of a perception a while back out there in the community or among some of the interest groups that you were not necessarily in support of the comprehensive trade arrangements. I get the sense from your answers now that it is a position that is much more so, or at least crystallized, since you have actually seen the agreement.

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Mr. Lavelle: I think that in terms of my own particular view, again as a deputy minister providing advice to the government, we were not in a position to take any final position until we found out what the final text had to say. The elements of the agreement and then the final text crystallized whatever views or concerns we might have had with respect to the agreement.

Mr. Mackenzie: It is a good way of not answering the question, but I understand what you are thinking.

Mr. Lavelle: I was attempting to put my concerns in the context of--

Mr. Mackenzie: Let me ask you--take my own town, for example--what did the steel producers gain?

Mr. Lavelle: What did the steel producers gain? That is a question which to me at least is unclear. First of all, the benefit in the agreement is that under the free trade agreement the steel producers in Canada cannot be sideswiped by actions taken against a third country. In other words, if there is Korean steel coming into the United States, and the United States decides to put on a provision which limits the level of imports, then Canada cannot be required under that particular action to follow suit.

As you know, under the present arrangement Canada is limited by a voluntary restraint arrangement to approximately 4.1 per cent of the US market. When they go above that, there is a hue and cry from US legislatures and the US steel industry. The expectation is that if steel moves freely across the border in a competitive vein, in an open market, the level of Canadian exports of steel would go up much higher than it presently is. The US steel producers have said publicly that they would not support the FTA in the United States unless Canada agreed to a voluntary restraint arrangement. So only time will tell whether the Canadian steel industry has gained the right to ship on a competitive basis into the US market.

In all fairness, I think the Canadian steel industry has never indicated that it wanted to take advantage of the Canada-US free trade agreement to increase its share of the US market. What they want to do is to grow in their

exports on the basis of the growth in the US consumption of steel. They find that is a satisfactory arrangement, provided they are not going to be sideswiped by US trade legislation and trade remedy laws. My view is that they have not gained a great deal, but their view is quite different from mine.

Mr. Mackenzie: My colleague says, "I am not sure there is evidence of the growth." But let me put it in the context of the answers that were given by the steel industry itself at the cabinet hearings that were held in Hamilton, when Mr. Phoenix of Dofasco, I guess nailed with some of the hard questions, admitted that what they were trying to protect was the status quo. He was very clear about that. He was even clearer in the scrum afterwards with some of the local television people. But he was also asked in the course of that hearing whether or not, even with this agreement, the US could bring countervail action or could bring action against them, and his answer was clearly yec.

We are supposed to be able to access this big new market. What I am really asking is--and it is why I asked the question--what have they actually gained? Have they even gained the protection they are talking about when actions can still be brought against them? That answer, as I say, came from one of the chief officers of one of the two major companies.

Mr. Lavelle: The legitimate answer to your answer is they have gained in so far as the sideswipe in terms of their own prescription for monitoring their exports to the United States. My suggestion to you, as you have just said, is that they will virtually remain the same. Whether that is of benefit enough to satisfy the steel producers is another question. They appear to accept that constraint.

Mr. Mackenzie: It at least defeats the whole supposed principle of it in one major area, and that is this access to this vast new market.

Mr. Lavelle: I agree with you.

Mr. Mackenzie: In your opinion, with this agreement signed as you have seen it now, can we institute content legislation in this country if we want to or can we specifically zero in on import replacement if we want to?

Mr. Lavelle: I would ask Mr. Latimer. I will try to answer. The content provisions of the auto pact, of course, are gone. The Canadian content provisions which are involved in the Foreign Investment Review Agency, which are content in another form, are going to be seriously changed. I would think that anybody who tried to implement a content provision on a Canadian product to enter the Canadian market would have difficulties, but Mr. Latimer, being an expert, will give a more precise answer.

Mr. Latimer: That is a tough question, because you have to worry about what definition you are using. Are you using content in terms of conditions attached to an investment that would be substantially reduced because of a screening process? If you are talking about content in terms of duty drawback systems that say if you put in so much production or buy so much, you will get some concession in terms of import tariffs on third countries, that is not precluded except in so far as the product of that plant--the benefits--would be prevented from being exported to the United States under this system of controls with drawbacks, as I understand it.

Mr. Mackenzie: Which is a back-door restriction anyhow.

Mr. Latimer: Which is a back-door restriction. That is the framework in which I understand content to be a factor: either tariff remission--to have drawback systems--or as a condition of investment.

Provincial government procurement is not affected at all, and therefore if there are some ground rules about content in relation to provincial government procurement, nothing in this agreement stops that.

Mr. Mackenzie: Is there anything in the agreement that deals with one of the questions you dealt with earlier, and that is incentives to companies to invest here? Of course, if they cannot ship out, it might be a problem. But does this agreement affect the government being willing to give incentives? I am not sure they would be worth anything if they could not ship out. Is there anything that stops incentives to investment here?

Mr. Lavelle: I think some of the people would say that there were. I would immediately respond and say that in terms of being able to provide incentives in the United States at the state and local levels, that process will probably continue to go on regardless of what is agreed to between Canada and the United States.

Specifically, there was no impairment in the agreement that would prohibit Ontario from providing incentives under the agreement, but subject to the fact that the negotiations over the next five to six years will obviously come to some conclusion with respect to the governments' luring investment by incentives, taking into consideration the fact that many of the governors in the other states, Michigan and others, have raised that as a very important issue. Mind you, they raised it while they continued to use those incentives to lure investment to their various regions.

Mr. Mackenzie: What about this whole question of five to seven years, is it--am I right?--

Mr. Lavelle: Yes.

Mr. Mackenzie: --in terms of deciding what are subsidies? Does this not create some difficulties for us as a nation if we are entering into this agreement now and doing the tooling up or the planning that will be necessary for it and yet do not have a clear idea of just what are going to be considered subsidies for as much as seven years?

Mr. Latimer: Can I respond a little bit to that?

Mr. Mackenzie: I would want to know the ground rules now, not five to seven years into retooling in terms many of the things that might be considered subsidies.

Mr. Latimer: I know what you are saying. There was a desire to obtain some amelioration of the US countervail activities that might frustrate the pursuit of various Canadian objectives by the use of countervail law. That did not succeed. The question is, since it did not succeed in these negotiations, is there any benefit to be had in getting some kind of commitment to agree to try to negotiate some constraints on subsidies as a condition for some reduction in the vulnerability to US countervail law?

I do not know the answer to that question. I guess if it is a total package that you are talking about, there are some doubts in my mind as to what incentive there would be on the United States side. If you thought the

issue of subsidies countervail was being bought by concessions somewhere else, by the removal of the Canadian tariff--if that is the kind of bargaining that took place, then to say it is bought now might be prejudicial to acquiring something in the future.

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Mr. Mackenzie: In as much as we did not achieve the elimination of the US right to countervail and unless I was reading the people we talked to in Washington wrong--and I am talking now about the elected people at least--I never got a more positive or harder line than I did from some of the US senators who told us, "The one thing we are not going to take away is the US right to countervail." In as much as the mechanism does not seem to do anything more than rule on whether or not it is in accordance with the law of the country involved, what have we really gained? What is likely to happen in terms of US countervail actions?

Mr. Latimer: The definition of what is countervailable is the issue. Can you get some refinements in the definition of subsidies that are countervailable or are not countervailable that reduces the risk? That is really what it is about.

Mr. Mackenzie: That is all we have to hope for and that is going to be in negotiations with them.

Mr. Latimer: That is right.

Mr. Mackenzie: And when they are already coming from a position of: "Hey, that is the one protection to the US economy that we ain't about to give up, fellas."

Mr. Latimer: That is right. It is a question of protecting negotiability in the future and you have to have a judgement about it.

Mr. Lavelle: I guess the other point to add to what Bob is saying is that the determination of the US to retain its antidumping countervailing activity is very well exhibited in the changes that are proposed in the omnibus trade bill. They are not weakening those provisions; they are strengthening them in that bill, and it will give greater freedom in some cases for those kinds of actions to take place.

Mr. Mackenzie: Given the toughening up of your position, I hope as a result of actually seeing the agreement, what are you now prepared to suggest that this government do? We have seen nothing but a motion that really does not say anything, so far, in the House. Is it not time or do we not feel strongly enough about the agreement to start showing the colours, I guess, both in the US and with the federal government here?

Mr. Latimer: Mr. Mackenzie, our job is to analyse the agreement and to provide that analysis to the government, and we have done that.

Mr. Mackenzie: But not to recommend any political action.

Mr. Latimer: Absolutely.

Mr. Mackenzie: The problem is they are not, either.

Mr. Pelissero: I would like to come back to a statement you made a

couple of times with respect to Mr. Wilson stating that he did not feel there were any additional programs or funds that were going to be necessary to see us through any kind of a transition.

I was hoping he was excluding the grape industry and, in particular, the grape growers, half of whom happen to live in my riding; so I have a little bit of a vested interest in it.

I am interested in the agreement from the point of view that some industries are given 10 years. The fruit and vegetable industry was given 20 years. The grape industry was given seven years, 50 per cent of it front-loaded in the first two years. I would be interested in any comments, speculation or whatever as to why you think that industry was treated differently from the other industries, either from a 10-year or 20-year phase-in or phase-out period.

Mr. Latimer: Could I just observe one point here? It is a little inaccurate, in my view, to say that the fruit and vegetable people got 20 years. All the fruit and vegetable people got was 10 years and a snapback concept. The tariff gets eliminated at the end of that 10 years and then it is just a potential safeguard action.

Mr. Pelissero: For an additional 10 years then, there is some question as to the--

Mr. Latimer: Yes, how long you can have it and all kinds of complicated things.

Mr. Pelissero: I guess we could deal with that as another matter, but there is some question as to the satisfaction guaranteed by that snapback provision to the producers. Anyway, I am interested in the seven-year phase-in, phase-out for the grape industry as opposed to a 10-year in other industries.

Mr. Latimer: As I understand it, the concept started with the idea of 10 years and then the negotiations were about volunteering tariff items for accelerated reduction. That was combined with the concept that if anybody wanted an accelerated reduction of less than 10 years, then each side had to agree because it was reciprocal on individual products. So what you had was bargaining. If you did not agree on anything sooner than 10 years, it was 10 years. If you could, by mutual agreement between the negotiators, agree on something faster, such as immediately or five years, and each side was prepared to move its product, the same product, at that speed, then they put it into those categories. That is how it emerged.

Mr. Pelissero: So basically, in my mind, it just reinforces the perception that certain grape growers have in the province that they are undoubtedly a bargaining chip, even to the point of being an accelerated bargaining chip, in order to go into that seven-year category.

Mr. Lavelle: I would just add to what Mr. Latimer has said that it was my impression--and I do not know whether Bob shares this view--that the alcoholic beverage item in the negotiations was a highly important one, symbolically and otherwise for the United States, that it was a key part of the negotiations and that movement had to be shown by Canada.

Mr. Latimer: You see, when you are talking about seven years, you are talking about the markups.

Mr. Pelissero: Right.

Mr. Latimer: You are not talking about a transitional period of 10 years or five years or seven years for a tariff.

Mr. Pelissero: I am translating the markups back to the producer who produces the raw product.

Mr. Latimer: I understand.

Mr. Pelissero: What I am hearing is that, in order for the agreement to reflect seven years, our negotiators had to agree to it.

Mr. Latimer: Yes, but do not link it to the tariff, please.

Mr. Pelissero: No, but I am saying the shorter period--

Mr. Latimer: OK.

Mr. Pelissero: --only by mutual consent, and mutual consent--

Mr. Latimer: Ah, mutual consent about the tariffs.

Mr. Pelissero: OK.

Mr. Latimer: All I was responding to is that, if you are raising the question of how somebody came to a view that you could deal with the seven-year thing--

Mr. Pelissero: As opposed to 10.

Mr. Latimer: --I agree, I do not know.

Mr. Pelissero: OK. The other question that I have and that has been asked of me is: If in fact, on the whole, we feel the bilateral trading arrangements have not worked out to our advantage as a province, what faith do we have in the same individuals who are negotiating for us in the multilateral negotiations? If we have the same consultation process in place and we have the same individuals in place who negotiated us "a good deal with the United States," I am asking, and people ask me, what kind of faith do we have then in terms of turning the whole process over to let them go to the General Agreement on Tariffs and Trade negotiations for us?

Mr. Latimer: These Canada-US negotiations were absolutely unique, in my mind. What you got was something that began with the expectations of the ideal, based on economic models of the great benefits to be had and all done by economists, none of whom agree.

Then, getting it back down to what bargaining is about, trade negotiations are about governmental regulations affecting the movement of goods, and it requires a degree of reciprocity and give and take and a willingness to make a deal. The scope of the Canada-US bilateral agreement was what was possible, negotiating in that period of time.

I personally do not attack the competence of the negotiators. The problem has to do with the willingness of the United States to make a deal that was really good for us. Then there is the problem of whether you should say "Snap" on the deal. The judgement of the Ontario counsels is that it is

not good enough. But I do not relate that to the competence of the negotiator. I relate it to the complexity of the thing, the ability and the willingness of the other partner to play it straight, and then whatever makes people decide to say "Snap" on an agreement.

Mr. Pelissero: So you see it more as a function of the time frame and having to respond to the January 2 or January 3 fast-track approval in the United States running out?

Mr. Latimer: Yes, and I think it is a political decision to decide to close or not to close. It is not a negotiator's decision.

Mr. Lavelle: The other point is that, relative to the GATT, the dynamics are different, as Mr. Latimer has said, and historically, Canada has been seen to benefit by a collision of interests that bring the European Community and the United States on a path, or the Japanese and the United States, in which concessions are made which Canada has benefited from over a longer period of time.

There is basically no way to compare the two, and whether Mr. Reisman will be in Geneva on behalf of Canada in the end remains doubtful. I do not think he personally would be the negotiator.

Mr. Pelissero: But the structures in terms of the way I understand the sectoral advisory groups on international trade to operate, they were to comment on both bilateral and multilateral and the consultation or the information flow will end up being relatively the same as it was for the bilateral.

Mr. Latimer: That is right.

Mr. Pelissero: OK.

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Mr. Sterling: Mr. Lavelle, I was interested in your opening remarks with regard to the consultation process that took place over the last year or two in relation to this whole matter. I do not know whether you want to answer this particular question, but I cannot recall all 50 states being involved in the negotiations that were undertaken by Mr. Murphy. I do not know whether the jurisdictions, when they get to negotiating what we would term a major trade treaty, involve secondary governments, which I guess we would have to consider the provincial government in some way, notwithstanding what our Constitution may or may not say.

How much do you think the centre should give to the provinces in negotiating? Quite frankly, I think Mr. Mulroney has been extremely patient with our various provincial premiers, in particular our own Premier (Mr. Peterson), who utilized this particular issue in a provincial campaign. He went about the province scaring the devil out of a lot of our people, particularly the dairy farmers in my area. They were going to lose their living, etc.

How far does this consultation process go? Who is ultimately responsible for making a treaty?

Mr. Lavelle: I will not attempt to answer all those questions, but I will deal with the question having to do with the United States. I think there

is a vast difference in the process of consultations in Canada from that in the United States. I do not think we should minimize that in the United States the consultative process was quite broad and quite important.

First, the US government maintains on an ongoing basis what it calls industry committees. The industry committee, whether it is with the FTA or the General Agreement on Tariffs and Trade, has a constant exchange of views between the industries that may be affected by trade negotiations and the government.

Second, the US governors, in the course of these negotiations, were consulted by the negotiators. It was not extensive in the sense that it was in Canada, and of course, as we know, the process of consulting the Congress, whether it was senators or congressmen themselves, relative to the impact on them of some arrangement that would be negotiated by the US negotiators was done on a daily basis. That, of course, is going to go into the negotiations.

The Canadian situation has always been one which, either as a private individual or a government employee, I have always found quite frustrating, because the Ottawa officials are not particularly interested in hearing what the provinces say, whether it is the private sector or government to government.

Mr. Sterling: Particularly in the middle of an election.

Mr. Lavelle: I think the potential here was that there was a consultative process which was established; the question is whether it worked. There were an awful lot of meetings, both with officials and between first ministers. I guess the process was, what were those negotiators telling us about what was going on on the other side? My own view was that they were not telling us very much.

Mr. Sterling: Then what were you doing? I think some of these pretty good meetings went on for 12 or 14 hours, etc. What were you talking about?

Mr. Lavelle: Mr. Latimer went to the Continuing Committee on Trade Negotiations when I went to the first ministers' meeting as an adviser to the government. I tell you, we sat for 14 hours in an anteroom eating cold sandwiches. We were not given any value added in those particular meetings. But the CCTN meetings, which were where the government was represented in terms of individual issues and topics--maybe Mr. Latimer can tell us what went on.

Mr. Latimer: It is a lot more complicated than the discussions we are talking about. The issue of the responsibility of a federal government in terms of international negotiations is a matter that gets into constitutional authority. Set that aside.

In the history of the world we now have, international trade negotiations were about tariffs, and tariffs were the exclusive responsibility of the federal government.

As soon as we started to get into negotiations that talked about trade and services, principles governing investment, all kinds of things that pass the border action and touch on areas of responsibility of provincial governments, we had a practical problem in how to do it.

I do not think you have the answer in this country at the moment. I

really do not. I do not think we have a Constitution that is reflective of the realities of international relations. So we try to do something about it, but we have not worked it out. How do you do that? Can there be one spokesman or more than one spokesman for Canada? This discussion has certainly focused on the problem. It has not provided an answer and, I think, one cannot walk away and say: "It was fully satisfactory. The federal government was totally reasonable about all this. What are you complaining about?" I do not know the answer to that. I just know there is a problem of communications, a problem of working together in this country that ain't easy, and we have not found the answer to it.

Mr. Lavelle: I just point out that the CCTN is the Continuing Committee on Trade Negotiations. The process of consultation was quite elaborate. Various meetings took place: the continuing committee, the first ministers; there were bilateral meetings between our ministry and the federal government. The fact that had to be judged as to how important or forthcoming those consultations were was the result and what we were told about what was being negotiated from the other side.

Mr. Sterling: My impression, from the exterior to some very large degree, not having been involved in these--one of the problems with our parliamentary process, especially when you get an election, is that the Premier has a foot up on you because he is involved in all these things; he has people around him who are involved for him, etc. Then you go out into the field and are talking to somebody at the door; you have impressions that are left of what is going on. In order to consult productively, it takes two people to want to consult productively.

I perhaps made the judgement that the hand of our Prime Minister was out more than the hand of our Premier, and that our Premier called an election in order to, I believe, spurn that consultation between the two parties. Therefore, in terms of consultation, I am afraid I come to the conclusion that the lack of consultation is more a fault of the provincial side than the federal side.

Mr. Latimer: I am sorry. I have not made any claims that there was a lack of consultation. Consultation is a wonderful thing, especially if the other guy agrees with what you say.

We are in a situation in which, for a long time, trade policy seemed to regard as self-evident that freer trade is good for you and imports are a necessary evil, and it was an instrument of foreign policy. We are now in a situation, I think, in a modern society, in which trade policy is an instrument of industrial policy. It depends on where you look at it, and the perspectives in this entire debate have been, in my view, flawed, because it tended to be looked at that international trade liberalization is, by definition, good.

From my point of view, looking at it whole, it ain't necessarily good from a provincial perspective. You have to look at it in terms of its industrial development impact, its employment impact and everything else. That is where the debate arises.

It definitely was self-evident to me. It all had to do with the perspective from which you looked at it. If there are differences of perspective, they are legitimate perspectives: not that one guy was nicer than the other guy. I really do not quite understand it. I should shut up, should I not?

Mr. Sterling: Mr. Lavelle, you were talking about the productivity gap between the American interests and our interests. It was in a question by Mr. Ferraro with regard to productivity--at least I think that was the question he was asking--but I did not really think you brought an answer to it.

Given the situation where we are now, who is more productive in our auto industry: Are Canadians more productive or are Americans more productive? I am not talking about who is going to come in and invest. I am asking who is more productive now. What you are telling me is different than what I am hearing from other economists. I understood we were somewhere between 10 and 15 per cent more productive than the Americans.

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Mr. Lavelle: I would have to go back and check the figures in terms of productivity between Canada and the United States. Whether the auto workers in Canada are more productive than the auto workers in the United States, I cannot give you that answer. I would say to you that where the advantage is readily pointed to with respect to Canadian investment in the automotive industry has to do with the value of the currency and the kinds of benefits that delivers in terms of wage rates to a Canadian location.

In terms of the productivity arrangements, that is a question I would have to answer in this way: The auto pact provided for a North American rationalized market in which the gains were provided on both sides of the border, including Canada, but on the provision that certain production and other arrangements came into place to support Canadian participation in that industry.

To say what the ultimate level of competitiveness is, purely with respect to output per worker, I would have to consult the figures again.

Mr. Sterling: In your remarks, you also talked about various studies that had looked at the question of free trade and the free trade agreement. I think you compared the Informetrica report with the most recent federal report.

Mr. Lavelle: Yes.

Mr. Sterling: You talked about 120,000 jobs in the federal report and 150,000 jobs in the Informetrica report and the difference is unexplainable. Are you talking about the same Informetrica report that was just produced recently?

Mr. Lavelle: As far as I know, I am talking about the Informetrica report tabled in the Legislature only last week, as compared to the report that was issued by Mr. Wilson, the Minister of Finance, last Wednesday or Thursday.

Mr. Sterling: You see, what I find difficult, when you start drawing comparisons between various reports like that, is that your minister argued in the House that the Informetrica report was no longer valid because it was based on assumptions and was not based on the free trade agreement. Yet, I hear you as deputy minister coming into the committee and trying to draw parallels between the two reports without distinguishing between the two.

That is what I find difficult in all governments producing all of these reports and trying to compare 400,000 jobs at risk, 150,000 jobs gained, 120,000 jobs gained, 300,000 jobs gained, depending on whichever report. I

only wish that people would table the thing on the assumptions they make in drawing those particular reports and not try to compare one with the other and say that one is invalid because of the comparison between the two.

It would be a little easier if we had had written notes of your speech and then I could draw you to the exact part of it, but I just find that the credibility of any government report has been shaken by the way they have been dealt with by the politicians, by the politicians' staffs and whatever. I guess I would just wish that the report were put out on the basis of the assumptions and let the public draw its conclusions. In fact, they are all different. They were done at different times by different people with different interests.

Mr. Lavelle: Mr. Sterling, you do not want me to rush to the defence of economists in terms of providing those kinds of reports and the figures. I agree with what you are saying relative to the fact that over the course of this negotiation or any negotiation all kinds of organizations and people produce reports.

The reason I was making reference to the report from the Ministry of Industry, Trade and Technology was to put it in context with the other reports that have been cited--the Economic Council of Canada report, the one by Informetrica--which were based on economic models as opposed to what we attempted to do in Ontario at MITT, which was to take our own analysis, go out into the field and talk to the industries that would be affected, gauge the degree of import sensitivity that those particular industries had and then calculate what the impact on jobs may be.

We did not, in the reports that I am aware of, specifically say that this or that would happen, whereas in the reports that we have talked about, people are making projections of 120,000 jobs, blah, blah, blah, and it is difficult to sustain a definitive figure in this respect. A lot of assumptions have to be taken into consideration.

I agree with you in what you are saying relative to how these are interpreted. They may often be interpreted differently, and they have been.

Mr. Sterling: One of the concerns we have had as a caucus going through this whole thing, talking about consultation earlier and talking about it later, is that originally we were denied certain reports from the ministry and we got them. Then later we found out there were other reports. In fact, when I asked the minister in the House about the Informetrica report, it appeared that he either forgot or was unaware of that report existing.

Have we received all of the reports, all of the opinions? We have asked in the past, and I asked in estimates, "Who are these people you consulted with?" I have never received an answer to that question in estimates. Who did the ministry consult with? They claim that when they were doing the sectoral reports they were reviewing widely with a group of people. I never got an answer to whom you did, consult with. I guess what we want to do is finally get a definitive answer whether or not there are any more reports or whatever. Are there any more legal opinions, studies, any other kind of information which you now have which we in this committee should know about?

I guess to make it clear, and because there was no answer before, I am going to give the deputy minister a letter today, under the Freedom of Information and Protection of Privacy Act, which is specifically asking for this information. Therefore, I am going to ask for a formal response this

time. I give you that letter right now and ask you to respond so that this committee can get all of the information from your ministry that it needs.

Mr. Lavelle: I wonder if I could just respond briefly, first of all, to make the point about the Informetrica study. That study, which was done by the Ministry of Industry, Trade and Technology, was commissioned some time in the latter part of 1985, before Mr. Kwinter became the minister. The fact that he was not aware of it was understandable, and he moved quite quickly, as I recall, to table it in the House.

Mr. Sterling: Yes, he did.

Mr. Lavelle: Second, I make the point that over a period of the last several months we have produced a number of studies, legal opinions and others that have been made public and have been provided to the committee and in other ways within the government system.

Mr. Kwinter also undertook, as I recall, in the Legislature last week to publish or provide to the Legislature any additional reports or information that we have within the ministry that would be relevant to this discussion, and we are in the process of trying to provide that information. We will do so and I will respond to your request in your letter.

Mr. Sterling: Thank you.

Mr. Chairman: Just supplementary to Mr. Sterling's question, hopefully the ministry would be prepared to be co-operative with our researchers in any initiation we may have of economic studies as well so that they can be co-ordinated.

Mr. Lavelle: I think we have said informally to the committee that we would be prepared, as always, to be as co-operative and as forthcoming as possible.

Mr. Chairman: Thank you.

Mr. Haggerty: I want to follow up on Mr. Ferraro's opening comments and the question raised about the fluctuation in the American dollar. It has been proven in the United States in the past couple of weeks that the drop in the American dollar has improved the American economy quite a bit. It has reduced quite a step in the trade imbalance or the trade deficit in the United States. One of the reasons given is that the drop in the American dollar has made the American goods produced in the United States more competitive. In other words, Americans are buying American products because they are cheaper.

Has your ministry done any studies in this area of the fluctuating dollar? What would it be, say, two or three years from now? The Canadian dollar could rise to maybe 86 cents on the American dollar? What effect does that have upon the Canadian economy? In competitiveness, will we have an edge in this area again or will it be reduced to some degree?

1630

Mr. Lavelle: I understand Dr. Purchase is coming before the committee some time in the next couple of days, and the Treasury did a study on the Canadian dollar and the fluctuations and the impact of the trade negotiations on the dollar, so I would say he would be able to give you a more professional outlook.

I would certainly think, from my own point of view from the Ministry of Industry, Trade and Technology, obviously, from a Canadian point of view, the lower the dollar, the better the situation competitively is for Canadian exports into the United States.

I was reading an article yesterday in the New York Times quoting from Mr. Yeutter, the American trade negotiator, in which he expects that, because of the changes in the American dollar, they will be in a surplus position in the early 1990s. In my opinion, that would not augur well for what the trade position would be between Canada and the United States in the early part of the 1990s, because, as you know, at the present time we do have a surplus with the US in trade.

However, that is not making any commentary on where the dollar may be in 1990 or early 1990. I would not want to make any projections at this time.

Mr. Haggerty: I was looking for a similar article. I thought I had it with me in my brief-case. It mentioned that for every \$1 billion worth of improvement in the trade deficit in the United States, it means--I forget what--that large numbers of employment would be created in the United States.

Mr. Lavelle: About 26,000 jobs.

Mr. Haggerty: It think it said 25,000 or 26,000 in there or something, but that is the figure. If you are looking at \$176 billion, that is quite a few jobs in the United States.

Are there any other shortfalls that you have found within your ministry with the present trade bill with the United States? You mentioned some shortfalls in areas that you were concerned about. One was the auto pact and there were a couple of other ones with regard to Mr. Latimer's comments on the agricultural sector. Are there any other areas that you are concerned about that there may be shortfalls in the--

Mr. Lavelle: You are talking about the FTA.

Mr. Haggerty: Yes, in the present free trade agreement.

Mr. Lavelle: I think that some of the issues that are going to come before you in the next few days are ones in which the shortfalls will be more fully explained, such as in agriculture or when the Attorney General (Mr. Scott) comes before the committee with respect to the constitutional implications.

In terms of trying to rationalize the bottom line from the Canadian point of view, in my own opinion, it has always been the impact of the changes that are proposed in the dispute settlement mechanism and whether it delivered what Canada had reasonably expected to achieve as a result of the negotiations. That has not been achieved, and the omnibus trade bill, if it is implemented and put into effect, can exacerbate the situation with regard to the provisions for harassing Canadian exports.

Mr. Latimer mentions the procurement provisions, which were not met. The expectation would be that we would have access to a broader, larger US market for procurement, including defence procurement. Those were excluded from the agreement.

The implications under the investment side of not being able to screen

foreign investments, of not being able to encourage foreign investors to recognize Canadian concerns in terms of content or in terms of board membership or in terms of acting in the best interests of the country--not to say that they will automatically not do that--but those kinds of concerns are there and they remain as a result of the agreement, not to mention again, to go on, seeing that you have asked me this question, the whole question of alcoholic beverages and the impact of the vast requirement for adjustment for the grape growers and the implications for the wine industry.

When one looks across the whole spectrum of what was negotiated, the answer is not so much what Canada had to give up but what it achieved in return for the concessions it made. The answer is that, on that basis, it is hard to justify.

The other concern, of course, is that, having made various concessions in terms of the negotiations, we now have to go into another set of negotiations having to do with subsidy practices and countervailing duties and there will be demands under those arrangements for further Canadian concessions. So it is not a static thing; it is a matter of--

Mr. Haggerty: Just on that point, can Mr. Latimer get into the area of the subsidy formula? I understand it is a problem with the GATT treaty at the present and the definition of what is a subsidy.

Mr. Latimer: What is a countervailable subsidy?

Mr. Haggerty: Can you perhaps give the committee some detailed information on this particular area?

Mr. Latimer: You have the greatest expert on subsidies and countervail law in the Ontario government right there.

Mr. Haggerty: Thank you.

Ms. Delagran: And the question was?

Interjection: What is the countervailable subsidy?

Ms. Delagran:: What is the countervailable subsidy?

Interjection:: Was the issue a countervailable subsidy issue?

Mr. Haggerty: No. One of the reasons I raised this question is that there are American subsidies in relation to farm commodities on the American side, as there are on the Canadian side. There is some question whether this is going to be a fair way to arrive at an agreement, where one side is not going to be penalized, even though we may have a dispute mechanism there.

Ms. Delagran: I think it is important to differentiate between agricultural subsidies and general industrial and regional development subsidies. They have been separated in GATT to some extent in terms of export subsidies.

I believe there is already some kind of agreement in the agricultural field in terms of export subsidies to each other, so that agricultural goods cannot benefit from export subsidies to the other country. In terms of the next five to seven years, the negotiations will cover issues such as what a countervailable subsidy is, looking in particular at things like regional

development subsidies, which at the moment are probably some of the most countervailable subsidies that exist. If something benefits from a regional development grant, it is practically automatically found to be a countervailable subsidy under US trade law at this time.

Mr. Haggerty: You are talking about regional disparities?

Ms. Delagran: Any kind of Institute for Research on Public Policy grant or federal or even provincial grant to northern Ontario is currently very vulnerable to being found countervailable.

It was the intention of the federal government, I believe, to try to get exemption from that kind of action against regional development subsidies, which it did not receive. Over the next five to seven years, you will have Canada attempting again to get certain kinds of subsidies defined as not countervailable and certain kinds of subsidies either defined as countervailable or constrained completely. The ability to do this, I think, is questionable. As Bob mentioned earlier, they failed to succeed in this over two years of negotiations and the US is extremely reluctant to allow Canadian regional development subsidies.

Mr. Haggerty: I raised this question because other members of the committee were down there a year ago and this matter was raised about subsidies. What some of the congressmen and senators said to the committee was: "The federal government provides assistance to each state, and what they do with it there, with regard to agricultural subsidies or any other regional subsidies, is their business alone. We do not consider it a subsidy. What the states do with it is their business." That is how they have got around it so far. I can see that we are going to be running into some difficulty in this particular area.

Ms. Delagran: That was always a concern, that because Canada exports so much more of its production, any subsidy received by industry or agriculture here, if it injured US industry, would be subject to an action in the United States simply because we export so much more. But US subsidies to their own industry, because they do not export as much of their product in most manufactured areas, would not be potentially subject to a countervailing duty action in Canada.

So it was very unbalanced. You had subsidies in the United States, which could be seen as import-replacing subsidies to replace Canadian exports to that market, which would not be hit by a trade action; whereas Canadian subsidies would be hit by a trade action if they were exported to the United States. There was that definite imbalance and an attempt to get the United States to recognize that their subsidy practices would be just as damaging to Canadian interests. In that regard, you have to look at US defence spending and the extent that constitutes an industrial development and regional development subsidy as well. I think that there is another area of contention perhaps in the next seven years.

1640

Mr. Kozyra: You mentioned that this treaty preserves, at best, the status quo of key Canadian objectives. I am wondering whether you have determined to what extent this could have been, to a large extent, the real agenda. I will give you the example. I come from the Thunder Bay region where the forest product industry is the main economic benefit to the area and I sat through the cabinet subcommittee hearings. The presentations were made by

several representatives from the forest products industry. They spoke, in general terms, optimistically of Canada's and, specifically, the forest products industry's ability to react to the challenge. They spoke of very few job increases as a result of it. As to the bottom line, they spoke that this was a good deal because they were afraid of increasing US protectionism. There was a reaction because of fear.

I am wondering to what extent other Canadian sectors felt this way, felt this was going in, and that was conveyed to the government and that then became an influence on negotiations. I guess we can answer that and I know some of that could be hypothetical or speculative. If that is the case, perhaps, Mr. Latimer, assuming you have extensive negotiation experience, when you negotiate from that, is that a position of strength or weakness?

Finally, have the forest product fears been allayed by what they now have?

Mr. Lavelle: I guess the situation with respect to the resource industries, including the forest product industry, has been basically that they supported this arrangement between Canada and the United States from the outset. Their expectation was, the same as most sectors of the economy, that, after a deal was struck, somehow or another they would be free from the kind of trade actions which had, in the past, been launched by the United States.

Take, for instance, the softwood lumber case. There was an element of fear--if it was not fear, then it was an element of concern--that if we did not negotiate an arrangement with the United States, then further protectionist action would be initiated in the United States which would prevent access to the United States market.

What is often forgotten in terms of looking at this agreement in its final form is that the one thing that is enshrined in the agreement for as long as the agreement is in effect is that the softwood lumber solution, the negotiated solution with the 15 per cent tax, has been given a prominent and permanent place in US trade law. I find it difficult to see the great degree of optimism that exists in that industry.

I think there has been a difference in the outlook of the resource industries in terms of providing raw material to a foreign market, whether it is the United States or elsewhere. Obviously, they would like to have that opportunity to continue to do that. Before Mr. Latimer gets into it, I would have to say that the process of having to negotiate on the basis of something that may happen is not the right way to enter a negotiation because it likely would not happen.

Mr. Latimer: That is practically three quarters of all of these negotiations. It depends on whether you accept this proposition. There is a proposition, valid or not, that in commercial policy terms, you are either going more protectionist or going more liberal. It is sort of like riding a bicycle. If you stop, you fall off.

If you accept the theory that the alternative to liberalization of trade is more protection, if you have two guys who say, "We want to liberalize trade" and "Liberalizing trade helps us deal with a problem of protectionism in our own economy," which is really part of the American position, as I understand it--whether they can deliver it is the question--then, obviously, you are negotiating against the threat of something, and then the capacity of

controlling that threat. You have to worry about it in terms of what stage you are at in a presidential term. You have to worry about the mood of the US Congress.

I do not know that you would say it was a serious threat of a Fortress America. You can afford not to be prepared to try to do something about it, but whether you can or not is a different question; and whether if you find out that you cannot do anything about it, you settle for the best you can get is really a different issue. But I believe in the bicycle theory and I believe in being five feet four and three quarters. They are 10 times bigger than we are, and I think you have to worry about it both ways.

Mr. Pelissero: Get a bigger bicycle.

Mr. Latimer: Get a bigger bicycle.

Mr. Chairman: Thank you very much for assisting us in opening our discussion. We really appreciate the help that you have given us today. I hope there will be a continuing good relationship between the committee and the ministry.

Mr. Lavelle: We are happy to come back at any time.

Mr. Chairman: Fine. Thank you very much.

We will move on now to Mr. Sterling's motion. Do you wish to speak to it?

Mr. Sterling: Yes, I do, if I can find it.

Mr. Chairman: Mr. Sterling moves that for the purpose of fulfilling its terms of reference as set out in the referral motion passed by the House on Thursday, January 7, 1988, this committee does not consider itself bound by the opinion of the House as passed in government motion 8 on Wednesday, January 6, 1988.

Mr. Sterling: Under the terms of reference for this committee on January 7, this committee was ordered that it be authorized to consider and report on the Canada-US free trade agreement. That is the scope of the particular reference to this committee. Our handbook on committees, page 8, reads in part, "Any order of reference instructing a committee to inquire into a subject defines the scope of the committee's deliberations." Mr. Chairman, you will find this in our handbook we were given, A Guide for Committee Chairmen, like yourself.

"However, the interpretation of the order of reference is a matter for the committee." In other words, we can interpret the particular order that we have been given as we see fit. I believe the committee would want to take an open and honest look at the free trade agreement, as you have specified in the press in recent days, and I congratulate you on your remarks. "I am not expecting it--and this is quoting you, Mr. Chairman--"but maybe I will end up being convinced this whole thing is not as bad as I thought it was," as you were quoted. "I think you are going to see these views influenced and some of them possibly shifted."

Mr. Mackenzie: That was not in our package of press releases.

Mr. Chairman: It had nothing to do with that.

Mr. Sterling: It was the view of the Legislature at that point in time, having had some opportunity to peruse the agreement. That was in relation to the fact that 79 Liberals supported a motion to condemn the free trade agreement. I do not think that in order for these committee hearings to have any use we should prejudge our final position on the free trade agreement. We should look at these hearings as objectively as we possibly can. Otherwise, there is really no validity to this process. We should, above all, protect the integrity of this committee.

Therefore, I moved that motion. I notice that one of my colleagues in the Liberal Party has attempted to put another motion forward after this motion. I suggest that motion does not do the same thing as this one and probably fuzzifies the intention of my motion. Therefore, I ask the members to support a motion which allows this committee to go in with clean hands in terms of dealing with the Canada-US free trade agreement.

1650

Notwithstanding the fact that there are 94 Liberal members in the Legislature, I hope the Liberal members of this committee will show some independence in terms of dealing with this issue, as many of the committees in the House of Commons have shown on the Conservative side when dealing with various different matters in that Parliament. Therefore, I ask for the support not only of my colleague from the Conservative caucus but also those of the official opposition as well as Liberal members.

Mr. Neumann: With respect to the motion put forward by Mr. Sterling, I believe, unfortunately, it looks back rather than forward. The motion refers specifically to the resolution which the House debated--very fully, I might add--in the latter hours and weeks of 1987 and on into 1988. We certainly all had our chance to express a point of view on that resolution and the House took its position, based on evidence it had received up to that point and based on the circumstances, a desire to try to influence to some degree the signing. We might all debate about what the purpose was, but we had our debate on that as well.

I prefer that if we are going to pass a resolution clarifying the status of this committee and what it intends to do, we look forward rather than backward. Therefore, I cannot support the present resolution before us.

Mr. Ferraro: I would just like to say, first, that my motion is a direct result of Mr. Sterling's motion. Admittedly, it is to some degree a negative motion, from the standpoint that I believe, and I think the members of my party and, hopefully, most of the members of the committee believe, that we indeed will be able to make up our minds as a committee.

Having said that, it is obvious that Mr. Sterling and members of his party, in any event, do not believe that is the case; consequently, the need for this motion.

I think, with respect, it is a reiteration of the the debate we have had over the last couple of weeks--Christmas, pre-Christmas, subsequent to Christmas and so forth--and a regurgitation of positions.

I was never confused, nor were members of the Liberal Party confused, as to the mandate of this committee. I respectfully point out again to the members that in the past reports dealing with the free trade issue over the

last two and a half years there was unanimity of consent among the Conservative and Liberal parties which has since been negated, if you will. Present positions are different. Indeed, there has been some consistency on the part of the New Democratic Party.

I do not agree that Mr. Sterling's motion is necessary. Let us assume for a minute, if you will, Mr. Chairman, that Mr. Sterling's position is correct, which I do not believe it is. But the committee serves a purpose, as well as making up our mind as a committee, whatever that may be. As you pointed out at the start, Mr. Chairman, this is the first governmental committee that I am aware of, to use your words, that is dealing with the free trade issue per se. Notwithstanding our position as parties and/or as a committee, I think it is extremely important that debate continue in a very unbiased way in order to provide some further insight into the agreement, based on the representations that will be made to the committee. I think there is definite utility, notwithstanding the political posturing of each party. I am uncomfortable with Mr. Sterling's position. Quite frankly, it reinforces his belief and his party's belief, which my party does not agree with.

In conclusion, we felt, however, that notwithstanding our differences of opinion there, we had to make a statement, albeit to some degree a motherhood statement, something that we believe in the Liberal Party was an implied mandate, an inherent part of the committee. We will be voting against that one and, hopefully, voting in favour of mine.

Mr. Mackenzie: Mr. Chairman, my remarks will be brief. We will support Mr. Sterling's motion. If it does not carry, we would have no difficulty supporting Mr. Ferraro's motion.

I take issue with one of Mr. Ferraro's last comments about posturing. There is no question exactly where the Tories stand on this issue and there is no question where we stand on it. The difficulty I am having is where in blazes the Liberals stand, and it is getting fuzzier every day in every one of these hearings that go by.

The other thing is that we would not have had Mr. Ferraro's motion if it had not been for Mr. Sterling's motion. That is very clear.

Mr. Ferraro: I agree.

Mr. Mackenzie: That is very clear. If the committee is to have the independence it should have and do the job it should--I would hate to think we are here if we could not toughen the report that was referred to us. If enough people start to question that this is maybe a good deal, as has the chairman, maybe they would swing the other way when the committee finally reports.

I do not know, but certainly the committee should at least be able to do the job. Whether it changes anybody's mind, it is getting a little more information out to the public, because they are the people who really are still sadly lacking it and concerned about just exactly what it means to them.

I see nothing wrong with Mr. Sterling's motion. It achieves the same thing, except obviously it is a bit of an affront to the government because it says, "Hey, we don't have to be bound by the decision we arrived at in the House." I do not think it is that big a deal. But that motion was on the floor first, legitimately; it does the same thing and we would not have had the other one without it. For that reason, I would argue we should support Mr. Sterling's motion.

Mr. Chairman: I know Mr. Neumann wants to speak again. Does anyone else wish to speak to the motion?

Mr. Neumann: I have one point. Mr. Mackenzie said it does the same thing. I do not believe it does. The second motion clearly states "without prejudice," which means that all of us keep an open mind without prejudice or reference to any past position. Mr. Sterling's motion refers specifically only to the motion passed by the Legislature and not to the position of his party.

Mr. Chairman: Mr. Morin-Strom.

Mr. Morin-Strom: Going back to what Mr. Neumann is saying, we cannot possibly change a decision that has already been made by the Liberal Party in the House, as reflected in that government motion. As a result, you are the ones not showing an open mind and are unwilling to look at this objectively, out of the bounds of the resolution which you have already supported in the House.

Mr. McCague: I do not know whether Mr. Neumann has this motion, but I would like him to tell me by reading that motion over where it refers back to the vote that was taken in the House.

It does not. It starts by citing the motion in the House that was referred to this committee and says further that we consider this without prejudice. What is the matter with that? Where does it refer back and look back? It does not look back.

Mr. Neumann: I do not think there is anything wrong with the resolution Mr. Ferraro is putting forward. It does not make reference to the motion passed by the Legislature, nor does it make reference to the position, the very strongly stated position, of the Progressive Conservative party in favour of the free trade agreement.

It is "without prejudice" to anything, whereas the motion put forward by Mr. Sterling only refers to the one resolution. In other words, he wants his bread buttered on both sides. He is not willing to listen without prejudice to the past position of his party, whereas this resolution says "without prejudice" to anything. It is clear; I would think it would go without saying, but let us deal with it.

Mr. Chairman: Do you wish to sum up, Mr. Sterling?

1700

Mr. Sterling: Yes, I do. First, I would like to thank the official opposition for supporting my motion. Basically, I thought my motion said in clear language what I meant by it. I have difficulty thinking that the public of Ontario has a better idea of Mr. Ferraro's motion, which I am going to question whether it is a proper motion, in its form, anyway, when it is really redirecting the mandate of the committee in its present form. Notwithstanding that, I thought that mine was in clear language.

What I wanted to do was not limit the prejudice of any particular member. We all have prejudices. That is why we are elected to the positions we are in. We have political positions that we have been involved in in the past. I hope that during the next whatever number of weeks, months or years that this committee may be meeting there will be an open attitude toward this particular matter. With a very heavy-handed resolution passed in the

Legislature recently, in terms of positioning on this issue, it was my thought that the committee as a whole would not consider itself bound by that resolution of the matter and that we could think for ourselves as a group when it came down to writing the final report.

I do not know that it looks forward in terms of trying to cut off what has already been done, in terms of the Legislature making a vote, other than saying that we refer to two weeks ago. I do not understand that argument, quite frankly.

By putting forward this resolution, we are not regurgitating our position. We are proponents of a neutral position. Therefore, I do not understand the argument of people who are saying that this position takes one tack or confirms the opinion of a party one way or another. We are not saying, in this amendment that the report of the committee will not confirm in every way what the Legislature voted in favour of two weeks ago.

At any rate, I thought that this was a reasonable way to show our independence to the Premier (Mr. Peterson) who, in my opinion, got caught a bit in the rhetoric of a provincial election. So that we can discuss with witnesses this matter in a reasonable fashion, I thought we could tell witnesses, "We are going to look at this in a reasonable manner and draw some reasonable conclusions."

Mr. Chairman: Does everyone understand Mr. Sterling's motion? Are you ready for the vote? All those in favour? Opposed?

Mr. Sterling: Recorded vote.

Mr. Haggerty: You can ask for it first. You cannot ask for it after.

Mr. Sterling: I do not know about this. I understood--

Mr. Haggerty: You have got to ask for it first.

Mr. Chairman: The vote was defeated four to six. However, I am going to allow a recorded vote. Go ahead.

The committee divided on Mr. Sterling's motion, which was negatived on the following vote:

Ayes

Mr. Mackenzie, Mr. McCague, Mr. Morin-Strom, Mr. Sterling.

Nays

Mr. Beer, Mr. Ferraro, Mr. Haggerty, Mr. Kozyra, Mr. Neumann, Mr. Pelissero.

Mr. Chairman: We will now deal with Mr. Ferraro's motion. Would you like to speak to it, Mr. Ferraro?

Mr. Ferraro: Without regurgitating what I said earlier, admittedly, it is a reaction to the result of Mr. Sterling's motion. Again, I reiterate that members of my party did not feel encumbered as members of the Conservative Party certainly felt, with the actions of the House. We felt they

Mr. Sterling: I would have thought that Mr. Ferraro would have moved that it is the committee's intention to hear all evidence from various witnesses without prejudice and report back to the House.

Mr. Pelissero: That is what it says.

Mr. Sterling: No, that is not what the motion says.

1710

Mr. Pelissero: The part in quotations is simply the restating of the motion from the House of July 7, verbatim.

Mr. Sterling: I think it is confusing, but OK, that is fine if the committee finds it clear.

Mr. McCague: Mr. Ferraro referred to the fact that he thought all committees considered items like this without prejudice or had very, very open minds.

Mr. Ferraro: To some degree.

Mr. McCague: What you said is on the record already.

I think the honourable member is smart enough to know that what we have here is that we know full well the government's intention, by motion, and here we are spending three weeks talking about this after the horse got away. It is not unlike passing a bill in the House--three readings and getting royal assent--and then sending it to a committee to find out what the committee and a few people in the province think about it. It is not at all unlike that.

The only thing it could be likened to, I think, is the estimates process where, regardless of what committees have done in the past, it was a fait accompli before you started that it was going to pass unless you attempted to reduce the minister's salary or the parliamentary assistant's salary to a dollar or something like that, which has almost gone through on occasion, with the help of the Liberal Party.

However, this is a very, very unusual situation, and I think to say that committee members always look at these kinds of things without prejudice is nonsense, particularly in this case, because you have been told what you are going to do through your own vote and through your leader.

Mr. Neumann: I suppose Mr. Sterling has the right to place whatever interpretation he wishes on this motion. It seems to me the motion is rather straightforward and clear. It says we are going to hear all the evidence without prejudice, formulate our report and report to the House, and that seems to be very clear and straightforward.

With regard to heavy-handedness of a majority, I think the heavy-handedness we are responding to is the majority in Ottawa, which chose to delay the revelation of the full text of the agreement until very close to Christmas, with very little time to consider it between then and the signing, and I am going to watch with great interest to see whether or not Mr. Sterling is swayed from his position by any of the evidence.

Mr. Sterling: At least all of us will vote.

were quite distinct things, being the mandate of the committee, which I believe, if I can use Mr. Sterling's words, will result in some reasonable and important insight into the free trade agreement as we know it today.

Quite frankly, I think this motion, albeit it is a motherhood motion, would be an implied fact relating to all committees of the House. It is a subjective decision whether or not one believes that, and I am not sure we are going to change anybody's mind in that regard. However, we do feel it is necessary to bring a replacement motion, if you will, that we feel, according to what my colleague the member for Brantford (Mr. Neumann) indicated, notwithstanding the fact it is a motherhood motion, is much more broad in its intent. It does not preclude or include any previous decisions from anybody, and quite frankly, albeit it is on the table, I would like to say in conclusion that it would hopefully be understood as the heart and soul, if you will, of a committee of this Legislature.

Mr. Sterling: I think it is a method of basically weaseling out of the fact that you are bound by the Liberal caucus and by the resolution that we have already voted for in the Legislature. My worse fears are confirmed that, in fact, we are going to sit through whatever number of hearings and we are basically going to come down with the same report as was indicated in the very heavy-handed resolution of the Premier and this government a couple of weeks ago.

I say, I guess with some concern, that a committee in a large majority government like you have cannot indicate some measure of independence and look at this issue. It is always hopeful in any kind of situation where you have at least one member in a large party breaking away and saying, "Look, I can think for myself on a particular issue." You do have one member who has already done that, the member for Etobicoke-Humber (Mr. Henderson), who believes that the free trade agreement has some positive effects.

The only other thing I would say in terms of measuring my disappointment is that I am not sure whether I find the motion as such in order or not. Is it, in fact, basically the ordering of the business as given to us by the House? I find the particular wording awkward in terms of the motion.

Mr. Chairman: You are suggesting that it is--

Mr. Sterling: Basically, what it does is extend what we were ordered in the House, and it is not moved as a motion as to what it is trying to do.

Mr. Chairman: We were ordered by the House to consider and report. It is simply, as you say, extending that. I do not see that as a contradiction.

Mr. Sterling: But are we not reordering what the House has ordered us to do? You see, my motion basically says that we, as a committee, shall not find ourselves bound. This particular motion reorders the committee's business, and we do not have that right.

Mr. Mackenzie: You are skating on pretty thin ice there.

Mr. Sterling: I just find it hard to understand.

Mr. Chairman: Obviously, in considering reporting on anything, we have to make some decisions.

Mr. Neumann: Let us be straightforward and honest.

Mr. Kozyra: It has been referred to that this committee may be a waste of time and I take strong exception. I think we all should appreciate this is our first opportunity to look at the trade agreement and its impact based on what it actually says.

As to the horse that got away that Mr. McCague refers to, I submit that it is actually the first time we have had a chance to look at the horse.

Mr. Chairman: Is there any other poet in the crowd here? Is there anyone who wishes to speak before Mr. Ferraro? Then I will have him sum up.

Mr. Ferraro: First, let me point out for the record as well, Mr. Sterling indicated that my colleague Mr. Henderson had a different perspective on the free trade issue. I suspect that to some degree it is a subjective interpretation. I remind Mr. Sterling that Mr. Henderson at that point in time indeed voted with the Liberal Party in support of the resolution.

Second, Mr. Neumann made two very important points, in my view. The heavy-handedness alluded to by Mr. Sterling was very indicative from his federal counterparts, from the standpoint that we had less than two weeks to look at the final free trade arrangement and subsequently Mr. Mulroney signed it on January 2. If that is not being heavy-handed, what is?

I want to end with what is in my view a very, very positive aspect of the committee's work. Mr. Sterling was not a part of this committee prior to today. Having said that, for the last two or two and a half years, notwithstanding our individual party positions, I do believe this committee came up with some good points in its two and a half reports, if you will. As an individual and a member of the Legislature, I have certainly learned a hell of a lot about the free trade process, and I reiterate that this is the first committee of any Legislature that I am aware of--as you pointed out again, Mr. Chairman--that is dealing with the free trade agreement that was signed January 2. Notwithstanding our individual party positions, I think it is important for us to learn as individuals and as members of the Legislature of Ontario and to give a forum to the people of Ontario to deal with the written free trade agreement.

I do not think, notwithstanding Mr. Sterling's position, it is a useless committee. I think it is a very important committee and, quite frankly, I am looking forward to the deliberations therein.

Mr. McCague: Just on a point of order, Mr. Chairman: Has anybody put the motion to this point?

Mr. Chairman: I will invite Mr. Ferraro to put the motion.

Mr. Ferraro: Thank you.

Mr. Chairman: Mr. Ferraro moves that further to the motion of January 7, 1988, "The standing committee on finance and economic affairs be authorized to consider a report on the Canada-US free trade agreement" and it is the committee's intention to hear all evidence without prejudice and report back to the House.

That having now been done, does anyone wish to speak to the motion?

Mr. Sterling: I have one final comment. I do not think the motion says anything, and I think the previous motion did say something.

Interjection: Let us have a recorded vote.

Mr. Chairman: A recorded vote has been requested.

Mr. Sterling: Let me ask you a question on the recorded vote. Do you have to ask for it before the verbal vote?

Mr. Chairman: Yes, I understand you do.

Mr. Haggerty: Where have you been, Norm?

Mr. Sterling: I have been around here as long as you have.

The committee divided on Mr. Ferraro's motion, which was agreed to on the following vote:

Ayes

Mr. Haggerty, Mr. Ferraro, Mr. Beer, Mr. Pelissero, Mr. Kozyra, Mr. Neumann, Mr. McCague, Mr. Mackenzie and Mr. Morin-Strom.

Nays

Mr. Sterling.

Ayes 9, nays 1.

Mr. Chairman: I have a couple of housekeeping matters, if I may. First, members may wish to consider the possibility of having individual studies done, having our own studies done, much as the select committee on economic affairs did. When we were first looking at the generic issue of free trade, we had some very useful studies done by Professors Lazar and Harris, Arthur Donner and someone else, Peter Dungan.

It may be that you will want to consider what it is that we want to have done that does not seem to be being done by anyone else. Of course, I am not asking you to come up with any concepts right now, but an example might be to see whether or not Professor Harris, for instance, is taking his now rather famous economic model and applying this actual agreement to it. I just ask you to think about that, and we will consider that a little later on when we have had a little more input.

Second, the scheduling. I was reminded by Mr. Morin-Strom this afternoon of a conversation that I did partake in, and I just do not know when it was--Mr. Carrozza, the clerk, indicates he was not part of it--in which I think it was agreed that we would not be sitting Fridays. I apologize to the committee for having permitted the Friday scheduling to go ahead.

The problem is that we are trying to schedule an awful lot in this three-week period. But if the committee wishes, we can try to reschedule the Friday people to other periods during the week. Perhaps the committee would prefer meeting at one o'clock instead of two or meeting earlier in the morning. The one exception I think is Mr. White from the Canadian Auto Workers, who indicated that he can only come on a Friday. The Canadian Federation of Independent Business wants the latest possible date. However,

that could clearly be earlier that week without greatly prejudicing them. Is there any discussion on that?

Mr. Ferraro: Just a point of suggestion, if you will. I personally concur with the fact that it is difficult to meet on Friday. I would point out to the committee that what worked fairly well last time was that we took half an hour and had some sandwiches brought in and worked right through. That might be a consideration as well for the committee.

1720

Mr. Morin-Strom: I would suggest that if we have to meet on a Friday, we should not meet the following Monday. Around the weekends, we should not meet both Friday and Monday. For members such as myself, who are out of town, even a half day precludes the use of either of those days for appointments or meetings in our constituencies.

Mr. Neumann: If we do have a Friday morning session, if the session could be scheduled from 9 a.m. to 11 a.m. instead of from 10 to 12, I think it would make a difference in terms of getting back to the constituency and still having some usable time in the constituency office.

Mr. Pelissero: It does not help. I would just reinforce that I would like to try to leave Fridays open. I thought we had some kind of an agreement within the steering committee with respect to that. If we have to go back and reschedule, then I suggest we do that.

Mr. Chairman: What I think I am hearing is as follows: that we attempt to reschedule the two Fridays, other than Mr. White, and if necessary, work through lunch hours to do so. If Mr. White be positioned on a Friday, that would permit us not to be sitting the following Monday; and that Mr. White be asked to appear at 9:30 a.m. on the Friday so that we can get away a little more quickly.

Mr. Pelissero: It does not help me, it does not help Taras and it does not help Karl. Even getting him in here Wednesday or Thursday night at seven o'clock--

Interjection.

Mr. Chairman: I do not think there is anyone here who wants to preclude Mr. White.

I think that is what I am hearing. We will ask the clerk to try to reschedule the hearings to accommodate that situation. Tomorrow, we will not be meeting in the morning. We will be meeting at two o'clock in room 151. Wear your best bib and tucker. The meeting is adjourned.

The committee adjourned at 5:25 p.m.

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Government
Publications

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

TUESDAY, JANUARY 19, 1988



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)
Haggerty, Ray (Niagara South L)
Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Neumann, David E. (Brantford L)
Nixon, J. Bradford (York Mills L)
Pelissero, Harry E. (Lincoln L)
Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Beer, Charles (York North L) for Mr. J. B. Nixon
Sterling, Norman W. (Carleton PC) for Mr. Villeneuve

Also taking part:

McGuigan, James F. (Essex-Kent L)

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Agriculture and Food:

Switzer, Dr. Clayton M., Deputy Minister
Collin, Dr. George H., Assistant Deputy Minister, Marketing and Standards
Seguin, Robert, Director, Economics and Policy Co-ordination Branch
Rzadki, Peter, Policy Adviser, Economics and Policy Co-ordination Branch
Caine, R. J., Senior Policy Adviser, Economics and Policy Co-ordination Branch

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, January 19, 1988

The committee met at 2:05 p.m. in room 151.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: Perhaps we can start our meeting now. People working with the monitors can go ahead and continue until they are finished what they are doing.

I welcome the television viewers who are watching this meeting of the standing committee on finance and economic affairs. I am sure you are going to find this far more exciting than auto insurance. I would indicate to you that we commenced hearings yesterday on the free trade agreement which has been signed between Canada and the United States. These hearings will continue for some time to come.

This afternoon we have with us from the Ministry of Agriculture and Food, Dr. Clayton Switzer, who is the deputy minister. Welcome Dr. Switzer.

Dr. Switzer: Thank you, Mr. Chairman.

Mr. Chairman: We all look forward to your comments. I might in opening suggest to you that during the course of the negotiations towards this agreement it was the unanimous view of the previous committee, the select committee on economic affairs, and I think this committee in the previous parliament, that agriculture was something that should be left off the bargaining table. I think we felt that was a view that was generally concurred in by the sectors on both side of the border, although it was never concurred in by the negotiators on both sides of the border. Now we have at least, in part, included it in the agreement and we would be interested in learning your views on that.

I understand you have some overhead slides you will be showing. Perhaps you could introduce the gentleman to your right and to your left and take it away.

Dr. Switzer: Thank you, Mr. Chairman, members of the committee. I am pleased to have this opportunity to meet with you today to tell you a little bit about where we are coming from as far as the free trade agreement with the United States in agriculture and food is concerned.

I have with me, on my far left over here, Bob Seguin, who is director of our policy co-ordination unit and economics branch. Next to me on my immediate left is Dr. George Collin, who is assistant deputy minister of the quality and standards wing of the ministry. On my right is Mr. Peter Rzedki, who is a policy analyst in our economics group. Peter will be doing the work of setting up the slides for me so that we can run through them.

I suppose my background as a university teacher comes into play. I just cannot talk to a group without having a piece of chalk in my hand or my information up on a board. I hope this will go OK. What I suggest, if it meets

with your approval, is to go through these slides. It will not take too long. They are fairly brief. What they do is provide you with an outline of the parts of the agreement that are particularly of interest to us and, as far as today is concerned, hopefully to you. Following that presentation, we would obviously be at your disposal to try to answer whatever questions you and the committee may have. If that is an agreeable procedure, perhaps we can go along on that basis.

What I am going to be talking about is the impact of the free trade agreement on the agriculture and food sector. I thought you might be interested at the outset to take a look at the chronology of things that have happened in terms of our activities. I am sure you are fully cognizant of everything that has happened in terms of the chronology of the whole free trade agreement, but specifically as far as agriculture and food is concerned, I thought you might like to look at this.

We started early on this and we have had a lot of meetings with various people throughout that time. We met with the farm groups back in January 27, 1986, and on March 4, 1986, we met with the processing organizations. I might say at this point that we regard in our ministry part of our mandate being in both of those fields. We deal with the producers, of course, but we also are very interested in the welfare of the processing part of the industry. So we had separate meetings back in February and March 1986 with the processing organizations.

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By February of last year, we had produced a paper which we circulated as a discussion paper on free trade to all the interested groups. It laid out as best we could the impacts that we saw at that time that the free trade agreement, as we then understood it, might have on the agriculture and food system.

On March 10, we met with both the farm and the processing organizations. On May 28, our minister met with farm organizations. On June 18, there was a meeting with the processor organizations and the minister. On October 20, there was another meeting of the food processing group and the minister. On November 9, there was a meeting with the horticultural organizations and the minister. On November 12, the supply management groups met with him. On November 24, there was a meeting of a rather large group. It turned out to be much larger than we envisaged. We had people sort of hanging on the rafters for this meeting, to which we invited people from the grains, oil seeds and livestock industries to meet with the minister. So we have had a large number of meetings.

In addition to that, each year we have what we call our outlook conference, at which we sort of look ahead at what might happen in agriculture in the year ahead of us. We held this late in October 1987 and the subject of that meeting was free trade. We had an excellent turnout. Something over 400 people showed up for that meeting. We had some good speakers. We talked again about the impacts of free trade.

I thought it might be useful to review with you the details of the legal text as it pertains to the agriculture and food system. Again, I will go through these fairly quickly. There may be some questions that come out of this. As you choose, Mr. Chairman, you can interrupt me and ask questions if you wish, or at least save them till the end and then we can come back; whatever you wish.

Mr. Chairman: Perhaps you can go through it initially. If there is something really burning, we may interrupt you, but we will try not to. Then I will take questions later.

Dr. Switzer: Okay, sir. Article 401 is the matter of tariff elimination. Of all the parts of the free trade agreement, I suppose this is the one that I think has an impact on the widest range of people in the agriculture and food system. Under article 401, the tariffs will be eliminated in all agriculture and food areas over a 10-year period.

Article 701 deals with agricultural subsidies. The goal of this is to eliminate on a global basis all subsidies that distort agricultural trade, a goal that I think anybody who has been involved in agriculture for any length of time would subscribe to. It is a very difficult thing to attain, of course, but it is a great goal to shoot at.

Export subsidies would not be used on agricultural goods traded bilaterally between the United States and Canada. The export interests of the other country would be taken into account in all of our dealings.

Transport subsidies under the Western Grain Transportation Act would not be provided on goods being shipped from west coast ports to the United States. In other words, any of our grains that are sent to the west and then shipped down into the United States would not be eligible for transport subsidies.

Finally, sale at a loss of agricultural commodities by governments or public entities would be prohibited. This constrains the ability of a government or a public entity within that government to buy something at one price and then sell it cheaply somewhere else. I suppose the word "dump" could be used and has been used in areas. This prohibits that happening.

Article 702 provides special provisions for fresh fruits and vegetables. This refers to the so-called snapback process, which I will be mentioning a little more in a few minutes. There are two conditions that have to be met here in order for this snapback process to work. The two conditions are listed here.

First, for five consecutive days, import prices have to be below 90 per cent of a five-year average of monthly import prices, with the highest and lowest years excluded. That has to be met before the snapback process comes into play. Second, planted acreage cannot exceed the average acreage of the crop during the five years, with the highest and lowest years excluded. In other words, this stops us and them, both Canada and the United States, from planting additional crops and then going and claiming exemption under article 702.

Mr. Mackenzie: On that point, briefly, is there not a further two-day administration period, as well as the five days?

Dr. Switzer: George, can you help me on that?

Mr. Seguin: In answer to your question, we are not quite sure how much more time is required. We definitely know there is more administrative time.

Mr. Mackenzie: The administrative, I am told, is two days.

Mr. Seguin: There are between two and five days, but we have not clarified exactly what. The deputy will refer to this later in the discussion.

Dr. Switzer: This is just one of several areas where we do have some uncertainties. We will try to sum those up for you.

Other details include acreage increases attributed to land moving out of wine grape production being excluded from the acreage condition calculation. In other words, in trying to rationalize our wine and grape industry, if we take land away from grapes and put that land into another horticultural crop, that would be excluded from the terms of article 702.

Article 703, market access for agriculture: I believe this simply means that the United States and Canada have agreed to work together. I do not see that it says an awful lot more than what I read in the legal text.

Article 704 does seemingly have a considerable impact. This allows for our beef, our red meats, to move into the United States and theirs to move here, and not for the other country to introduce import controls. I think that is a major value, or it should be a major value, to our red meat industry.

Article 705, market access for grain and grain products: This will eliminate import controls on wheat, barley, oats and products thereof if support levels are equal. Therein lies a major problem, because it is very difficult for us to try to calculate--it will be done, but it will take a lot of time--just what these support levels are.

Mr. Neumann: Can you explain what is the significance of the omission of pork from article 704?

Dr. Switzer: I am not sure it should have been under it.

This is Richard Caine--I did not introduce him before--another member of our economics and policy co-ordination branch.

Mr. Seguin: For clarification, the reason is that it is not covered under the meat import law of the United States; so there is no need for exemption.

Mr. Neumann: What was that?

Mr. Seguin: It is not covered by the meat import law. Only beef and the items up on the chart are covered.

Mr. Neumann: Is it not mentioned at all then? Is pork mentioned at all in the agreement?

Mr. Seguin: Not specifically.

Mr. Neumann: Does the fact that it is not mentioned specifically have any significance at all for pork producers?

Mr. Seguin: In so far as the agreement itself is a general trend towards reducing trade barriers, the pork producers see a benefit to them; but no, neither way.

Mr. Chairman: Are you saying they have free trade in pork right now, except, of course, it has been countervailed?

Mr. Seguin: Countervailed, and there is a certain amount of tariffs involved. But pork is not an item under the meat import law, which this article in the agreement is to address, a mutual exclusion for both countries.

Dr. Collin: The countervail applies on hogs and not on pork.

Mr. Beer: For clarification, though, does that mean that because it is not there, the United States could stop export of Canadian pork to the United States and there would be nothing that we could do about it? Or are you saying that because of the other act, it flows across anyway and so it would not be--

Mr. Seguin: We are getting into a speculative situation. I would say that the United States would have to take new action, which might be contrary to the spirit of the agreement, and also take action through Congress to specifically limit pork. The act in place in the United States right now refers only to those products up on the wall.

Mr. Neumann: I asked this for a reason. I was talking to one of my colleagues this morning who represents a rural riding, and he has been trying to get an answer to this question of, what is the significance of the fact that pork is left out, not made reference to in the agreement? He is trying to find an answer for the pork producers in his riding.

Mr. Chairman: Can you give him an answer now?

Mr. Neumann: He does not have an answer. I do not know if I can give him an answer. I thought with all the experts here--

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Mr. Morin-Strom: Looking at the language of this document, as I understand it, it does not refer to any of these specifically but talks about meat in general. It makes no distinction between pork and the other ones, but I presume your display is meant to show the impact on these particular types of meats.

Dr. Switzer: It is my understanding, listening to the folks here, that basically those listed here are presently under import controls or could be, so they have been specifically excluded. Pork was not and, therefore, there was no need to mention it. That would be my simply put understanding of what I have just heard.

Mr. Pelissero: Just on that point with respect to tariffs, are there currently tariffs on any of those meat commodities that are listed there?

Dr. Collin: I believe there are specific tariff applications to beef. I am not too sure about goat and mutton. I am quite sure there are tariff specifics.

Mr. Pelissero: Do you have any idea at what level?

Dr. Collin: They run generally eight per cent to 15 per cent levels.

Dr. Switzer: We have a table later that will specifically draw up the commodities that have tariff impact.

Mr. Chairman: May I just clarify this in my own mind? You are saying that in those four items there are controls now. Those controls will come off and there will be a new generic prohibition of controls.

Mr. Seguin: The clarification here is the sense that the agreement allows for each country mutual exclusion for their meat import laws. We have one and the United States has one. Those are the items that are under each and the agreement allows free flow without quantitative restriction. There have been years in the past when quantitative restrictions have not been imposed because there is no need and there have been years when there have been. This takes away that kind of potential risk that it might be imposed.

Mr. Chairman: Thank you. Carry on.

Dr. Switzer: If we can turn to article 706, this refers to market access for poultry and eggs. In the free trade agreement, there were some changes made to what is referred to as the global import quota. These changes are listed on the slide. The import quota for chicken was increased from 6.3 per cent to 7.5 per cent. That is per cent of the total Canadian production, as I understand it. Is that correct?

Mr. Haggerty: Are these live birds you are talking about?

Dr. Collin: It could apply to meat or live birds.

Mr. Haggerty: So the processed meat products can come in.

Dr. Switzer: The turkey was increased from two per cent to 3.5 per cent. Shell eggs increased from 0.675 per cent to 1.647 per cent, liquid, frozen and further processed eggs increased from 0.415 per cent to 0.714 per cent and powdered eggs increased from 0.615 per cent to 0.627 per cent.

Of those listed, the ones that we feel could be of some concern would be (a) and (b), the chicken and the turkey. The others seem to be of a nature the size of which would not bother us too much, but (a) and (b) could cause us some concern. Our overall concern here is that these have been changed in this agreement. We cannot help but ask if they might not be changed some time in the future.

Mr. Ferraro: Before you--

Mr. Chairman: Mr. Pelissero has one and then you.

Mr. Pelissero: That was going to be my question and direction in the sense that those, I believe, were changed to represent historical importation versus what they were allowed when supply management systems were set up. As supply management was set up, you had to allow for what was coming into the country at some point in time.

I would just voice a concern. I have had a number of people from the feather industry express a concern about what happens if, for whatever reason, that figure goes from 7.5 per cent up to 10 per cent, for example. Is there any mechanism, in your understanding of the agreement, where that either freezes or is subject to review at any particular time?

Dr. Collin: We have asked that very specific question. As you pointed out, the increase to 7.5 per cent reflects past supplemental imports to satisfy demand. We have asked the question. Given five years, would they

then reach back over the past five years, calculate the supplementals and then give that share of the Canadian market to the US suppliers. The answer has been no. It is a one-time offer under the free trade agreement.

Mr. Pelissero: The fundamental argument is that, while you have not touched the supply management system, in a sense you have eroded its base or the reason for its existence in the sense that I, as an egg producer, a chicken producer or a turkey producer, will not have to produce that raw product. In turn, we have turned it over to the Americans, maybe recognizing and pegging what has happened historically, but with not any insurance as to what is going to happen in the future, should, as I am sure you are going to get into, the food processing companies that deal in those particular commodities no longer see a need to maybe have operations in Ontario or in Canada and it all comes in from the states.

Mr. Chairman: I now have four names. Rather than take any more questions, I will allow Dr. Switzer to finish what he has to say and then we will move to questions.

Mr. Mackenzie: What was that ruling you just made, that you had too many people?

Mr. Chairman: I have four names. I thought if I started taking those questions Dr. Switzer would not be able to finish his presentation.

Mr. Mackenzie: They were related directly to what was being discussed, but OK, I am willing to buy it for the moment.

Dr. Switzer: Article 707 deals with market access for sugar-containing products. I guess the critical thing here is that in the original text "sweetner" was the word used and in the legal text, the last text, this word has been changed to "sugar." I suspect this would be pleasing to those companies that are in the manufacture cookies and things of that kind because they now can use things other than sugar to sweeten and still be able to export them.

Article 708, technical regulations and standards for agricultural food, beverage and certain related goods: The agreement there has been reached to minimize technical barriers to trade and agriculture and food products.

I think there are probably some long-term implications here when you start talking about technical barriers. In minimizing technical barriers, we feel we want to look at things such as disease-free regions. We have certain areas in Canada that are disease-free. I think the United States recognizes this. I hope that is the case. While under a free trade agreement they might export something into one area of Canada that is not disease-free, let us say, they would respect the fact that other areas of Canada are disease-free and not export into those.

We specifically mention here bluetongue and pseudorabies as priority items that we need to keep in mind because we do not have these and we do not want them. We also mention inspection systems. I guess what is likely to happen here is that both countries, I hope, would work to respect their neighbours' inspection system so the Americans would be willing to say that something inspected in Canada was satisfactorily inspected and they would not want to stop it at the border to reinspect it just because their people had not looked at it.

Article 709, consultations: I guess this is sort of formalizing ongoing discussions that would continue on into the future. I believe the understanding is that there would be semi-annual discussions on various parts of free trade.

Article 710 deals with international obligations and points out that Canada and the United States have maintained their rights and obligations under GATT. Then a specific reference has been added--this is new in the legal text from what it was in the elements of the agreement that came out earlier--to article 11, which is the article which deals with supply management. We can talk about that more later if you wish.

Articles 801 to 808 are rather important to us here in this province because they deal with wine and distilled spirits. I am sure members of the committee will get a lot more from this when they meet with my colleagues from the Ministry of Consumer and Commercial Relations, but I could not go by without saying something about it because we obviously have considerable interest in this, based on our views of the impact of this part of the agreement on our grape growers.

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As you will know, I am sure, agreement was reached to end discriminatory pricing practices. The differential markup between Canadian and US products will be eliminated over seven years, which is bad enough, but our biggest concern is that there is going to be a 50 per cent reduction in the first two years.

Finally, selected distribution and listing practices are grandfathered, including Quebec's requirements for in-province bottling of wine sold in grocery stores and British Columbia estate wineries, neither of which has direct impact on us in this province but is in the agreement.

I thought it would be useful to summarize for you the three major changes that have taken place over the course of the fall, from the time we saw the elements of the agreement until the final legal text which came out late in the fall. As far as we are concerned in the Ministry of Agriculture and Food, there are these three: greater clarification of how the snapback process might work--I think we still have some concerns here, not knowing just how it may work under certain conditions; as I have mentioned, replacement of the term "sweetener" by "sugar"; and a specific reference to article 11 of the General Agreement on Tariffs and Trade, which deals with supply management.

This then brings us to what we still have as our major uncertainties about the free trade agreement. As I have said a couple of times, the actual mechanics of the snapback process--we do not really know what triggers this process and we do not know who will monitor it and things of this kind.

Second, the assignment of various processed dairy and poultry products under the import control list: As we sit here, it is quite possible that Mr. Wise is making an announcement on this in British Columbia because he is giving a speech there today and rumours tell us he is likely to announce import controls on certain dairy products at that time, possibly on things such as ice cream, yoghurt and things of this kind. I am conjecturing now because he is presumably making that announcement just about now. We really do not know what the complete list is that might come under this. I list it under our major uncertainties.

The harmonization of technical standards: I mentioned earlier that I think there is going to have to be a lot of work done yet on how the technical standards, the nontariff barriers and things of this kind are harmonized between the two countries.

Finally, the future secondary impacts on food processors and marketing boards: I guess what we are concerned about here is that we see the potential for almost an adversarial relationship to develop between marketing boards on the one hand and food processors on the other. In our ministry, we feel an obligation to both of those sectors. Much of the work I indicated earlier was to try to be sure we had a good understanding of where each of them was coming from. We do worry a little and have this as an uncertainty as to how the two can work out. Are the food processors going to be penalized by the fact that the marketing boards apparently have kept most of their clout?

This table is a bit complicated, but I do not think it is unnecessarily so. What we have tried to do is to show you the impact of the agreement on various parts of the sector. Down the left-hand side, we have listed the commodities we are dealing with here: grains and oil seeds; livestock and red meats; dairy; poultry and eggs; fruit and vegetables; then we have lumped a group together under "other commodities."

Reading across to the right, the first column shows you what in our opinion is the effect of doing away with tariffs on each of these groups. In the grains and oil seeds sector, we do not see much effect of doing away with tariffs at all. In the livestock and red meats, we see again in the industry--it is pretty hard to put a dollar figure on it by doing away with tariffs. In the dairy industry, we see a loss of about \$10 million; poultry and eggs, \$2 million; fruit and vegetables, the largest sector we are concerned about, \$50 million.

Policy changes--the next column--that relate to tariffs: Under grains and oil seeds, that \$30 million relates to the stated aim of the federal government to do away with the two-price wheat system. If the two-priced wheat system is done away with, this would be of advantage to the processing sector, obviously. By our best calculations, it would cost the wheat producers of Ontario about \$30 million, so we see this as a cost of free trade.

Import controls: There is merely a possible loss under grains and oil seeds, a gain under livestock and red meat, nothing much under dairy. We see a possible loss to the poultry and egg sector here of about \$6 million, none under fruits and vegetables.

Technical regulations: It is either neutral or a possible gain. We do not see many problems to us under change in technical regulations and possibly some gains.

The dispute settlement mechanism: There is probably a modest gain under livestock and red meats. The others we see as neutral.

Other measures: With regard to fruits and vegetables--I am not so sure, you will have to help me here, George, to see what "other measures" actually means.

Dr. Collin: This is the bottom line, the impact of change to provincial liquor board practices.

Dr. Switzer: Oh, D part, the impact of the change in the liquor board. So that is the impact on the grape sector specifically.

Dr. Collins: Which is pretty significant, roughly half of real value.

Dr. Switzer: At the farm gate, the grape industry in Ontario now is calculated to be about \$30 million, \$31 million or \$32 million a year. What we are saying is that if everything goes as now expected, about half of that income would be lost.

Mr. Pelissero: This is from Ontario alone?

Dr. Switzer: This is only Ontario.

For the totals then, on the far right we see a loss of roughly \$39 million in the grains and oil seeds, a gain of perhaps as much as \$18 million in livestock and red meats, a loss of \$10 million in dairy, meat and poultry and eggs. Then, as I said earlier, the big sector where we would clear some losses is in fruits and vegetables, perhaps as high as \$65 million, to give us a total impact, ball-park figure, of \$100 million.

That sort of summarizes for you what we see now. If I could, with two quick slides, I will finish this.

The issues we see that still have to be addressed are:

1. What adjustment assistance is likely to be forthcoming from governments? What responsibilities do we as a province have versus the responsibilities that the federal government has in providing adjustment assistance to any sectors that may be hurt?
2. Policy changes stemming from the agreement, and I use as an example the two-price wheat system. There may be other policy changes that will come about.
3. The implementation of the tariff snapback procedure for fresh fruits and vegetables. I have mentioned that already.
4. The underpinnings of supply management, and this comes back again to this import control list. Unless we have some kind of import controls, there could be problems here.
5. The impact on Canadian health and quality standards of agreement to minimize technical barriers.
6. The definition of export subsidies. We are not sure at this point just what are subsidies and what are likely to be called subsidies. Each country in the world seems to have its own definition of subsidies and its own way of putting them in place, so this is true between the United States and ourselves.
7. The consultation process with industry groups in the provinces over technical regulations and standards. I think the point here is that there is an overlap between federal and provincial jurisdictions and we regard this as an issue as to what consultation will take place with the industry groups on certain regulations.

8. What future policy changes and industry adjustments will fall out of the current General Agreement of Tariffs and Trade negotiations? We are talking here today about the free trade agreement with the United States, but you really cannot put that in isolation and not think about the GATT as well. I think that has to be an issue.

Finally, the last line is our conclusions.

On balance, we see this free trade agreement as having a modest effect on the agriculture and food system of the province. As I have said, the cost to the industry, in the ball-park figure, we estimate at \$100 million, but we see that as approximately two per cent of the farm gate value of produce in Ontario, which ran up over \$5.2 billion or \$5.3 billion in the last year.

Of course, all of this is based on certain assumptions we have made, and my colleagues can help you with those later on if you want.

Finally, Canada's freedom to implement agricultural policies remains tempered by the continued threat of US trade actions and, of course, by the outcome of the General Agreement on Tariffs and Trade negotiations.

Those are the three conclusions we offer you, as we see the free trade agreement.

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Mr. Chairman: Thank you very much, Dr. Switzer. On talking about standardized and uniform standards, as I understand it, the agreement simply says we are working towards that, and in actual fact the presumption is that each country will still administer its own standards.

Dr. Switzer: That is certainly my understanding. George, do you want to talk about standards?

Dr. Collin: I guess it depends on what aspect of standards. If you look at issues of inspection, I think the proposition is to have similar protocols in the education and training of inspectors to develop common criteria for deciding what is a quality standard or a health standard, so basically you are correct on that point.

Mr. Chairman: I have a number of questions from Mr. Ferraro, Mr. Haggerty, Mr. Neumann, Mr. Mackenzie and Mr. Pelissero.

Mr. Ferraro: I have a couple of questions and then I will let the more expert members dealing with agriculture ask some questions. I eat a lot of this stuff. I am not really concerned how you manage it to some degree. At this time, I am.

A general question I have relates specifically to the food-processing industry, Dr. Switzer. There have been some statements made by a lot of people in this regard. Can you tell me from your perspective--I know the minister quoted it as a \$13-billion industry in Ontario--how this deal affects the food-processing business as you perceive it now?

Dr. Switzer: I would like to ask Dr. Collin, who has done a lot more than I have working with the food processors.

Dr. Collin: I go back to Dr. Switzer's comment about the import permit list. That is seen as the first effort to give our processors some degree of protection. He mentioned dairy products, particularly ice cream and yoghurt, that are protected by a fairly good, substantial tariff; they would be reduced over a 10-year period. The proposition, as Dr. Switzer suggests, is that Mr. Wise is rumoured to offer to add on, through cabinet approval, about 12 dairy commodity items, including ice cream, yoghurt and this kind of thing.

By putting them on the import control list, you basically stop the sale of that kind of product across the US-Canada border, so any processor dealing in that commodity does have a sense of protection and can meet the raw product cost for milk in that process.

It then takes you to the second step: How do you offer the same degree of protection to processors who use, for example, poultry products, whether it be chicken, turkey or eggs, in all kinds of things like TV dinners, cordon bleu, this kind of speciality product?

The industry representing the poultry interests is seeing the move by Mr. Wise, the offer to add to the import control list, as a precedent. It would press Ottawa and the federal cabinet to add any products containing chicken, turkey or eggs to the import control list. If that was done, obviously that would give a sense of protection.

It then leaves you with an area you could classify as commodities that come under marketing board authority, not supply management and price setting, but commodities where our marketing boards negotiate price. This may be, for example, our tender fruit industry used in processing. It could be tomatoes in Essex and Kent county that are contracted by negotiation. The question is whether the processors could live with the differential in product cost of maybe \$10 or \$20 a ton between the Ontario negotiated price and the California offered price to growers.

The other issue, of course, is the one that Dr. Switzer mentioned, the two-price wheat system. This impacts very hard on the processors if they are using relatively expensive wheat, say, soft winter wheat, to produce pasta in Ontario, because they are basically paying an Ontario- or Canadian-set price, not the international price, which is maybe 40 per cent cheaper. So those people do have a disadvantage.

The real question is, can they make it up in other areas such as labour content and product, investment costs, capitalization and economy of scale? Those are the things that are very hard to measure. Economy of scale has most of our processors very concerned about that sense of size of operation. Our processors are relatively small, with short-line production in many products, whereas the American manufacturers of many food products tend to be very major, very large operations, very efficient and often specializing in one or two very specific commodities.

Those are the kinds of issues you have to measure all the way from milk input to negotiated price under marketing board conditions.

Mr. Ferraro: I have two questions. When I read your final conclusion where you said modest impact--\$100 million, and I guess the adjustment will clarify that position to a greater degree--if it has a modest impact on agriculture in Ontario, why would the Ontario Federation of Agriculture, for example, be opposed to it from your perspective? I fully intend to ask them the same question.

Dr. Switzer: I agree that they should be asked. My view and my feeling would be--

Mr. Ferraro: Which is what I want, your view and feeling.

Dr. Switzer: --that they would be concerned about the uncertainties. We tried to make quite a point with you that with many of these things there are still uncertainties there. We just do not know about import controls. I think Mrs. Pyke has made that point several times.

Mr. Sterling: I thought they had voted at a meeting, but that the--

Dr. Switzer: I do not know, Mr. Sterling, precisely whether they have taken a position officially, but I heard Mrs. Pyke on TV a few times and I was under the impression that she had a position.

Mr. Chairman: For reasons that I am not sure of, and I will share this with the committee, I have received a brief from Mrs. Pyke that she has given to cabinet which opposes this rather vehemently. A lot of it has to do with concerns about uncertainties, concerns about the fact that there is really, in her view or at least in the OFA's view, no continued control over export subsidies to third markets. She cites the examples that have occurred even since the signing of the agreement.

Mr. Ferraro: It begs the question then I guess, Mr. Switzer--and I cannot recall quite frankly--did you qualify your conclusions?

Dr. Switzer: I think I qualified it by saying that they are based on a certain set of assumptions and we are not absolutely positive of our assumptions. Obviously, to do that, you make assumptions, and if your assumptions are wrong, then the whole thing is wrong. In that sense, I qualified them..

Mr. Seguin: If I may, Mr. Chairman and Mr. Ferraro, for example, if the two-price wheat system was not eliminated, that would put those wheat users domestically in a severe competitive bind. They would face probably one of the largest items they have to buy at a far higher price than their American counterparts. If you remove the tariff, one thing or the other has to give.

Mr. Ferraro: I understand that.

Mr. Seguin: We have been told by the government of Canada that the two-part system will be eliminated and that will address--

Mr. Ferraro: I am glad I asked the question, but I guess what I am referring to is the fact that when you showed your conclusions--and if somebody were to see a transcript, it had three conclusions--I could not recall whether you had, under those conclusions or before those conclusions, the qualifications that would affect them. I asked the question and I listened to most of the presentation, but I do not want it to confuse people. That is what I am saying.

Dr. Switzer: If I could just add one thing, again for clarification. I did state several times during my presentation that we are interested in the welfare of both the production and the processing sectors. Just to be sure, the final table, where we showed the impact and we arrived at a dollar figure,

was related only to the production sector. We have not tried to assess what the total impact might be on the processing sector, because there just seem to be too many unknowns.

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Mr. Ferraro: Would the same argument--and I do not want to put words in your mouth; this is my last question--we can understand the confusion on the part of the farmer and, indeed, the ministry officials. Does the same confusion apply to the reality of the pricing for the consumer?

Dr. Switzer: Bob, I guess I have to ask you.

Mr. Seguin: I am not sure I follow your question, Mr. Ferraro.

Mr. Ferraro: Is it premature to say that the consumer is going to pay more for prices or less for prices?

Mr. Seguin: At this time, our best estimate says it is premature to say. There is no necessity for all the price declines that you might see at the farm level to be passed through all the way to the consumer. The retail system in this country is a bit different than in the United States, the processing sector needs reinvestment, there are competitive pressures from the United States. There is no necessity.

Mr. Ferraro: I realize this is a pretty difficult question I am asking. I was just wondering if you had any gut feeling about it.

Mr. Seguin: No, we do not want to anticipate it and, as we have seen from the Consumers' Association of Canada recently, they too have suspicions that there will not be that immediate price effect.

Mr. Haggerty: I was interested in comments made on article 804, particularly on item 3 which says, "Nothing in this agreement shall prohibit the province of Quebec from requiring that any wine sold in grocery stores in Quebec be bottled in Quebec, provided that alternative outlets are provided in Quebec for the sale of wine of the United States of America, whether or not such wine is bottled in Quebec." That is perhaps considered as a grandfather clause to protect the existing industry there. You have also mentioned the two-price wheat system that is now present. It will certainly cause some impact upon the producers or growers here in Ontario.

Why were these two concessions given to the province of Quebec and the western provinces? Really, when you look at the total agreement, nothing has been given in concessions to Ontario, particularly even to the wine and grape growers in the province. In fact, even in the production of poultry in Ontario in regard to processors, we find in the trade agreement that, I guess, on one side of it the United States will have an opportunity to gain quota in Canada, yet it does not have the reverse, that in this particular area of poultry there will be a market in the United States, exporting from Ontario or from Canada to the United States.

What are the reasons for this? I know it is a political reason, and maybe you do not want to discuss it.

Dr. Switzer: I really cannot say, other than that I do not know. Maybe Dr. Collin can add light on this.

Mr. Haggerty: What is your assessment of it? Let us put it that way.

Dr. Collin: It is strictly speculative, because none of us on this side of the table were involved in the direct negotiations that Simon Reisman led. All you can do is speculate that there were in fact tradeoffs, and your guess is probably as good as mine.

Mr. Haggerty: What you are telling me, then, is that Simon Reisman totally neglected even to inquire about Ontario's positions on some of these areas.

Mr. Chairman: Would that provision have been of any help to us if it had said "Quebec and Ontario"?

Mr. Haggerty: Definitely.

Dr. Collin: The sale of wine in grocery stores?

Mr. Chairman: They are talking about the requirement that it be bottled in Quebec and so on.

Dr. Collin: I think the key point is that it does make a reference, as you say, sir, to the grandfathering of the issue of wine bottled and sold in grocery stores in Quebec.

Mr. Chairman: In other words, if it said grocery stores, obviously it would not apply in Ontario.

Mr. Haggerty: I think in the long run they are removing the concentrated form of wine or spirits or whatever it may be, into the production of wine in Ontario. That will be removed under the agreement here, I guess. Will it not be? In other words, they cannot use it for blending with Ontario wines. Am I correct in that?

Dr. Switzer: I really do not know.

Mr. Haggerty: You do not know that. That is the way I would interpret it. I believe it did say, just looking at it there, that the concentrates would be removed--someplace in there.

Dr. Switzer: Without really trying to pass the buck, I would suggest that perhaps our colleagues--

Mr. Haggerty: The blending requirement, article 805.

Dr. Switzer: --our colleagues in Consumer and Commercial Relations might be more helpful to you when you deal with that.

Mr. Neumann: I have just a couple of questions. First of all, I will follow up on my initial question about the elimination of any reference to pork. I must say that in addition to the comments of my colleague, which prompted this question, I have developed quite an interest in the pork business in view of the construction of a major slaughtering operation in our community, which will commence this year.

I noticed in the summary we received of the Ontario Pork Producers' Marketing Board's presentation to the cabinet, it indicates that the pork producers' marketing board supports the agreement. It says in the summary, "US

market access is vital to the industry and the agreement assures it." This was presented before the final text was released. Then it says, "The dispute mechanism is an improvement on the status quo," and it goes on to say why.

The definition of meat goods in the chapter relating to agriculture reads as follows: "Meat goods means meat of cattle (including veal), goats and sheep (except lambs), whether fresh, chilled or frozen." There is no reference whatsoever to pork. I can understand that perhaps what led up to it was the fact that the existing legislation in the US may not cover pork, but if some action were to be taken in the future to restrict imports, and it is taken to the dispute settlement mechanism, would you not think that an objective, impartial body, which this is supposed to be, reading this agreement, would say the agreement was never intended to cover pork; it is not even in the definition? Is that not a logical conclusion to reach?

Dr. Switzer: It is, unless pork is covered in some other way in international trade that I do not know about. George, could you help?

Dr. Collin: Could I try to help you on the pork issue. I think you read the summary correctly that the pork board in its submission is supportive of what in fact the agreement allows in the way of access to the US markets. I think if you look at schedule 10, under standards, it talks about meat, poultry and egg inspection and says the parties shall work towards making equivalent and recognition of each other's reviews of mutually recognized meat and poultry inspection systems.

The concern of the pork producers particularly, and beef producers to some extent, was the required inspection at border crossing of things like truckloads of pork, for example, going into the US from Canada. This basically says, under this, "recognition of meat inspection." If I could read into what that says to the pork producers, it is that those 375 truckloads of meat crossing from Canada into the US, which would include beef and pork, will not in fact be unloaded, reinspected and then passed on to the market.

Mr. Neumann: But my point is, in cross-referencing that to a definition of meat, it excludes pork.

Dr. Collin: I think the definition of meat is under the meat import control acts, which are those issues that you saw. Pork, as Mr. Seguin explained, is not under a quota system under the US import control act for meats.

Mr. Neumann: My second question relates to marketing boards and the indirect impact on food processors. I have a great interest in marketing boards. Being the son of a dairy farmer, I know what marketing boards did to stabilize that industry years ago, and I can appreciate why people want to preserve them in our society. However, if marketing boards are there to stabilize prices, to keep them at a level sufficient to provide an income to the producer, and obviously a food processor is going to be interested in buying at the cheapest price he can, would that not give an edge to food processors in the US rather than in Canada, because food processors in Canada would be obligated to buy through the marketing boards, whereas in the US they could buy on the free market and perhaps buy at a cheaper rate? Would this then not put considerable pressure on marketing boards and their system in Canada, even though they are technically protected?

Dr. Switzer: Bob, do you want to deal with this one because I think you have spent a lot of time talking about it.

Mr. Seguin: Mr. Neumann, you have hit the point exactly. The agreement, while protecting the institutional marketing boards, has posed new challenges in the marketing and pricing of products. The competitive pressures from the United States and the processors will drive them to find the lowest cost raw material, while the producers will, of course, want the higher price. I believe the deputy minister's presentation raised this as a longer term impact. It is an adversarial relationship.

Some processors have asked--Mr. Wise will likely do it today--to get special protection under the import control list, that their products be added and that they be given quota protection. Others will probably seek other mechanisms. This is one of the long-term impacts we see, that the industry will be put in an adversarial position. Our processors, which had the benefit of tariff protection in the past, lose that and will try to seek gains by reducing their input costs. Producers will face either lowering their input costs or maybe seeing their potential markets displaced.

Mr. Neumann: What percentage of our food processing industry is made up of American branch plants?

Mr. Seguin: Off the top of my head, I cannot answer that.

Mr. Neumann: Are there any?

Mr. Seguin: There are a certain number of companies like Campbell, Heinz, Pillsbury.

Mr. Neumann: Would there not then be an incentive for those companies, where decisions would be made in the head office, to relocate the branch plant food processor to get the benefits. There is free access to the Canadian market and no longer a tariff. You get the benefit of a longer production run and access to cheaper commodity prices because you do not have marketing boards in the United States. Would a combination of all these things not add up to considerable job loss in the food processing sector in Canada?

Mr. Seguin: We are not sure if it is considered a considerable job loss or considerable pressure to find other ways of remaining competitive through new investments or better marketing techniques. The food industries in Ontario have made efforts over the years to remain competitive with their US counterparts and to keep up in technology and marketing skills.

Also, we found a certain amount of regionalization in the markets, which may work to the benefit of Ontario processors. That slight differential in taste and patterns and distribution areas may give them an extra bit of protection, but that is strictly through the marketplace, not a benefit of tariffs. That seems to be a long-term structural change. It is hard to predict. It could be overcome by massive investments in plants in the United States. It is one of those large uncertainties.

Mr. Neumann: That concludes my questions.

Mr. Mackenzie: Perhaps I can go back for a moment to the question Mr. Pelissero was on. On the increase in the quotas, export or import, in terms of chicken and turkey--I guess it applies to eggs as well--does not the

fact that what we have done, in effect, is to increase the quota, the import, to cover the extent that we protected ourselves with supply management practices really have some serious implications? Have we not undermined the supply management before we ever start?

Dr. Collin: Really what you are saying is that the--

Mr. Mackenzie: We are going back to the presupply management, in effect, and the very purpose of the supply management, as I understood it, was to protect some of this market.

Dr. Collin: No. I would like to take you back into the late 1970s when the chicken board was established as a federal national supply agency. At that time, US imports were rising very fast and were extremely price competitive in Ontario, Quebec and elsewhere. Canadian producers were losing market share at a very fast rate. When the federal government introduced, with the support of the provinces, a national board for chickens, it really said that it measured back for five years and took the average of the imports from the US and established the US share of the global quota, to use the term.

What they have done on this round, as I understand it, is that they have again reached back in 1987 to see what supplementals were brought in on the requested imports, when importers could not find a supply of, for example, chicken, over the last five years. They have come up with an average of 1.3 per cent of the global quota and they have reassigned that and given that to the US producers to have that share of the Canadian market.

As I said before, our understanding in asking that question--and the marketing boards themselves have asked that question at our urging and have come back with the answer no--is that it is the one and only time, in fact, to expand the US share of the global quota, this 1.3 per cent increase of the global quota. In fact, there is no intention, there is no danger to give them a bigger market share than that percentage.

Mr. Mackenzie: But it is an increase.

Dr. Collin: Yes.

Mr. Mackenzie: I do not know how you figure that, if it is not a bigger percentage than they were getting prior to this arrangement and it does take into account what was happening at least at the last level, if you like, prior to supply marketing. It seems to me that we have made a concession, a fairly major concession, right off the bat.

Dr. Collin: Again, it goes back to the issue of tradeoff.

Mr. Mackenzie: Even if it goes back to tradeoff, then that is exactly what you are saying.

Dr. Collin: I think the other thing you want to keep in mind, particularly if you are talking chicken, and somewhat turkey, is that as a product, the demand in Canada is still going up. If you look at it, the producer in Ontario is still probably gaining total quota allocation for production. What he is losing is a percentage of the total Canadian market. But as long as consumption is going up, he is not really and truly losing his capacity for quota to produce chicken.

Mr. Sterling: The fact is that they distributed 180,000 broilers in Ontario last year.

Mr. Pelissero: Just on that point though--and I do not want to lose it, because it is important--we have talked about the processors at the other end. We focused in on the producer in terms of what it means. My whole argument or contention is that the food processors in Ontario, maybe in the feather industry and the turkey and the chicken businesses, may not need the Ontario market. If they are forced to pay a higher price because of supply management having a cost-of-production formula, they will simply go down to the United States and source it and bring it into Canada. When you have the facade of a supply-management system, it does not mean anything.

I have some difficulty when we say we have not given up anything. I am saying that in the short term it may not look like we have given up anything--and certainly the dairy farmers may or may not be happy today, depending on what Mr. Wise is saying in Vancouver--but if, for whatever reason, we find ourselves flooded with processed chicken product--because they are not shipping in milk; they are shipping in ice cream and yoghurt--there is no guarantee of what kind of mechanism is going to be put in place to add the remaining poultry products on to that import control list. So in an indirect way, you have undermined the whole existence of supply management.

I will reserve some of my other comments for my question, but I could not let that point go. I am sorry, Mr. Mackenzie.

Mr. Mackenzie: I think there is some significance to it.

Dr. Switzer: If I may, I just remind you that when I presented the table up here, I did indicate to you that the first two areas, chicken and turkey, were of concern to us. I did say that and I did say we had overall concern that these might be changed again in the future. If they can be changed now, they might be changed in the future.

Mr. Mackenzie: Even the argument they have used, that actually it is an increasing market, so now is the time to do it--damn it all, there has to be some time when you show the gains.

Dr. Switzer: Exactly.

Mr. Mackenzie: The other thing that bothers me a bit is this so-called snapback provision for seasonal tariffs, which I gather is used as a defence in some cases. I understand from the notes I have been given here that snapback comes into effect only when the import price has been less than 90 per cent of a five-year average import price for five consecutive days, and a further administrative period of two days is necessary before the tariff can be applied. In effect, seven days' dumping is required before a snapback can be applied, yet most people say it takes only two days to flood the market. So in effect, what is the snapback provision worth? I guess that is my next question. Can it be applied only once in the 12-month period?

Mr. Seguin: It can be applied only once. If it is applied, it lasts for 108 days, which should cover the season for the producers. I apologize, the two days is the notice that has to be given to the other party. What we do not know yet is how much time may have to elapse in the actual mechanics of putting it in place.

Mr. Mackenzie: So in other words, it could be longer than seven days.

Mr. Seguin: It could be, but we hope seven days or less.

The concern you have raised about the effectiveness of the snapback was raised by most of the fruit and vegetable growers. Some grower groups are more willing to try at least, but all have doubts about its effectiveness. Again, on the same point, two to three days is the maximum time you can have low prices before the markets are distorted considerably.

I guess it is a case of actually seeing the mechanism in place and seeing if it can work. We have certain concerns about the actual monitoring of flow of imports into the province at the customs offices. How can you track prices and make sure that all those points of entry are monitoring prices coming in? There is a certain amount of difficulty we foresee.

Mr. Mackenzie: Forgive me if I say it sounds something like the dispute settlement mechanism, which can really only make rulings based on whether or not you have broken a specific law within that country. Many people, not all, obviously see it as of very little value. It seems to me the snapback provision is of even less value, and yet both of these have been advanced as two of the safeguards, if you like, we have in this treaty that we are dealing with.

Mr. Seguin: The government of Canada is the safeguard. They made comments that they would do their best to see it implemented as effectively as they can. As we stated in the presentation, one of our concerns is the mechanics of how this can actually work.

Mr. Mackenzie: The other thing I found interesting, although it showed marginal problems, was this is one of the first times I have seen a win-loss chart in all the months that we sat in on this committee. We sat almost a year and a half.

As Mr. Haggerty will remember, one of the questions that was asked to almost every presenting group, particularly those who were favouring the free trade negotiations, was, "Show us where we are going to see the gains." We could never get that to this day. We got very minor ones. Petrochemical and cement are the only two I can remember from all those hearings. We obviously were shown areas where there was concern.

Today you did have a sort of win-loss chart up there. While I forget what the final figure was, \$100 million or something--

Interjection: \$90 million.

Mr. Mackenzie:--\$90 million as a potential loss in the deal, that was without the questions really being answered of what is going to happen in terms of supply management, what the effect is going to be in terms of marketing boards. It seems to me it was taking a very mild assumption on what the effect would be. If these are areas of concern and if there is not the redress and things like snapback, could that not show a much more serious loss position?

Dr. Switzer: It was, of course, based on the assumption you have made that the supply management systems would remain in place. I guess it was made on the basis of the snapback working, maybe. I do not think we derived

the figures from the fruit and vegetable industry by assuming that the snapback thing was going to work.

Mr. Mackenzie: Just one more question, if I can find where something struck me here.

Mr. Sterling: Did you assume it was going to work?

Mr. Seguin: Can I help you on that point? Originally, the fruit and vegetable issue asked for what they call their traditional five protections. The snapback philosophy is only one of them, which is a fast, direct surtax basically. The snapback is something that the US has asked for in the sense of protection against offshore imports. New York state growers have asked for a sense of protection from our imports. So there is a sense of agreement on both sides that maybe snapback is at least worth while trying.

Mr. Mackenzie: Except that it is likely to have much more protection for them. It would take much more of our production to flood their market than it would take of theirs to flood ours. It does not take any brains to see that at all.

Dr. Collin: I think this is really the problem for the fruit and vegetable industry. We are a very short season and we are a very intensive harvest when we are in season, but we can suffer from US imports during our very short season of production.

I go back to the point that there were five safeguards asked for by the fruit and vegetable industry, of which the agreement has only offered one. So the deputy is saying, "Yes, there is a potential loss of \$50 million to the fruit and vegetable industry on the basis of that conclusion."

Mr. Sterling: On the basis of what?

Dr. Collin: On the conclusion that the other four protections are not assured and that the snapback will only be about less than five per cent effective.

Mr. Sterling: If you disagree with that assumption, you disagree with \$50 million of \$100 million.

Mr. Chairman: Mr. Mackenzie, you have another question?

Mr. Mackenzie: Just one more. Supply management is not directly prohibited in the text of the agreement, as I understand it, but certainly it is one of the serious questions being raised. I raised earlier with Dr. Switzer article 703, which, as I said, and I think he agreed with me, could mean everything or nothing: "In order to facilitate trade in agricultural goods, the parties shall work together to improve access to each other's markets through the elimination or reduction of import barriers."

Yet is it not a fact that the Americans have made it very clear in the course of the talks that, in their view, supply management amounts to a subsidy that distorts agricultural trade? Their own negotiators have made this a major point. In fact, our negotiators did not make it a major point in countering.

While you can say that that lead in article 703 may not be too specific, the very fact that both parties shall work to eliminate all barriers and end up with a level playing field, and the fact that the Americans' chief argument has been that supply management is not something they want to continue, that it does amount to a subsidy, means we are going to be in trouble in terms of our marketing boards and our supply management procedures very quickly.

Dr. Switzer: I cannot really go much further than to state what you and I talked about earlier, that what I read in article 703 is that there is an agreement to continue to talk about trade. As you say, depending on the outcome of those talks, it means everything or nothing.

Mr. Mackenzie: To continue though, to reduce the tariffs and to establish--

Dr. Switzer: Any import barriers.

Mr. Mackenzie: "The parties agree that their primary goal with respect to agricultural subsidies is to achieve, on a global basis, the elimination of all subsidies which distort agricultural trade, and the parties agree to work together to achieve this goal..." Yet, as I said, the Americans have made it clear that in their view supply management amounts to a subsidy that distorts agricultural trade. It seems to me there is no question where we are heading.

Dr. Collin: Can I try to help a little? The way we read that agreement, if it helps at all, is that that statement about agricultural subsidies is a sort of preamble to the approach to the General Agreement on Tariffs and Trade negotiations, and our understanding of the US-Canadian--

Mr. Mackenzie: I think there is a referral to GATT in it as well.

Dr. Collin: Pardon?

Mr. Mackenzie: I think there is a referral to GATT, "such as the GATT."

Dr. Collin: Yes. But our understanding of the negotiations between the US and Canada was that basically there was no agreement on the definition of "subsidy." You will notice that the issue of grain subsidy is defined in many pages; I think there are 15 pages to try to come to the definition of "subsidy."

I think that preamble, that first clause, really says that the two countries, Canada and the US, agreed in principle to proceed to GATT to see some reduction in the level of agricultural subsidies. That is the way we read that connotation in that point.

Mr. Mackenzie: The five to seven years in the agreement to define subsidies applies obviously to agricultural subsidies as much as to subsidies that may affect more basic industry. We are talking about all subsidies there. Does that not also give us some serious problems if we have not defined these subsidies for that period of time, in terms of the relative cost to the two economies to adjust to such a free trade agreement?

Dr. Collin: If you go in and look at the effort of the agreement to define the equity of subsidies in grain, which is a very major part of it--this is annex 705.4--it goes on for some 15 pages to try to come to some

sense of definition of "subsidy" as applied to wheat, oats and barley. It is a very complex issue; I guess that is really the only place they try to quantify what was the definition of "subsidy."

Mr. Mackenzie: I will leave it with this final comment, if I can refer back to one of my previous colleagues in this committee, Mr. McGuigan, I think, one of the Liberal members, who made the argument, I thought reasonably effectively, that in the earlier round of talks a year or two ago the difficulty was in establishing whether, in terms of feeding hogs, the US feed grains program was in effect a subsidy, which it obviously is to our farmers but which they were disputing, and yet it has a tremendous effect in terms of the pricing of hogs. If we are going to have to argue against a stated position of theirs already that says, "Hey, this feed grains program is really not a subsidy," we are going to have some tough negotiations along the way.

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Dr. Switzer: I think this is the difficulty in trying to decide, not just between the United States and Canada, but worldwide, just what are subsidies. We have argued many times, and I will go on record once again as saying it, that the farmers of Canada can compete with anybody as long as they are playing on that so-called level playing field that we were supposed to have and we do not. This is the thing that bothers me all the way through this. In the American system, there are all kinds of hidden subsidies that have to be investigated out. My hope would be that, as part of the General Agreement on Tariffs and Trade exercise, they will delve out where all these subsidies are and do something about it; otherwise, our grain people have a tough row to hoe ahead of them.

Mr. Mackenzie: I know it is not directly connected, but when you think of the US refusal to give up countervail, and then when you stop and think for a minute of some of the farmers in Kansas and Iowa and some of these states where they are into some of the hog raising and what not and the effective use of the feed grains, if any of us thinks for a minute that they are not going to be bloody tough in terms of protecting that industry in their areas, we are nuts.

Mr. Chairman: That was a rhetorical question in any event. I note that the US has proposed to the GATT that all subsidies be eliminated over the next 10 years.

Mr. Pelissero: I guess I am coming at it from a little bit of a unique perspective, having made a presentation to this committee--I believe it was in the summer of 1985--when the whole topic of the bilateral trading arrangement with the United States came about. As president of the Ontario Federation of Agriculture, we came forward with a recommendation at that time, which said agriculture should be excluded from the discussions. In all the reading and everything that has happened since, that position has only been reinforced in my mind. I would like to take a minute to tell you why.

When you look at the status of the different sectors within agriculture and ask, because I know the minister is asked, I am asked and anybody within the agricultural circles is asked, "Is agriculture in favour or against free trade?" it is such a complex issue that you cannot simply say yes or no to that. It depends on the sector.

If you look to the red meat sector, pre free trade agreement, there was virtually a free flow of red meat on both sides of the border. If you talk to

the cattlemen's association, whether it is Ontario or Canadian, they are saying, "We are just looking at securing the access that we currently have."

With the fruit and vegetable industry pre free trade agreement, there were certainly seasonal tariffs in place and there was kind of a gentlemen's agreement between Canada and the United States. When our product comes on in harvest time, there is kind of an agreement to hold back and not flood the market, but as soon as our product is finished, it is back here again, and in some cases when the local product is finished, the prices go back up. I guess the wine sector is a special sector, and maybe I will come back to that later.

To me the biggest concern is the supply management sector from the point of view that supply management is never meant to be an export entity. The whole concept behind supply management is to supply the domestic need for Canada. In my mind, it is a little bit of a joke to add that special section with reference to GATT and our ability for supply management, because if the bilateral trading arrangement is in compliance with GATT, there is a section in GATT that basically says a country has a right to meet its own domestic needs. From the beginning, supply management never should have been part of it, and even any percentage increase in terms of the feather industry or the dairy industry to me is too much because it just undermines the whole nature and the whole requirement for supply management. So I have some very serious concerns about that.

The deputy minister talked about a level playing field. Professor Larry Martin from the University of Guelph said that the little phrase of "harmonization of technical standards" can either be the biggest plus or the biggest minus for us, the biggest minus from the point of view with respect to bluetongue, pseudorabies and other concerns--and I would throw in issues such as alachlor--in terms of the ability of our farmers to have access to the same kinds of chemicals, pesticides and herbicides that the American farmers have. Do we expect the American farmers to come up to our levels of standard?

The other one deals with the whole issue of whether we even have free trade among the provinces within Canada with respect to the wine industry. We have given access to the Americans to come into Ontario and virtually right across Canada, and we do not have the same ability.

I would like some comment on the snapback provision with respect, basically, to freezing our fruit and vegetable industry. A criterion that has to be met before you can trigger that mechanism is that you have not increased your acreage above a certain percentage. If you have done that, you can no longer trigger that mechanism. As of the free trade agreement, we have frozen our fruit and vegetable industry. I will not use it from a processing point of view. I will use it from a production point of view. Regardless of what we use that product for, if it is a derivative of a product and we want to claim damage from another product coming in, we will not be able to do that. Again, I have serious concerns about that.

The two-price wheat system, as an example, has been as much a boon to consumers as it has been to farmers. In fact, according to an article in Farm and Country, the consumers have since 1969, when the two-price wheat system came in, been the beneficiaries of about \$470 million. The farmers' benefit has been about \$3 million, because the idea behind two-price wheat is one price for the export market and one price for the domestic market. At one time, the export market price happened to be a lot higher than the domestic price; so it is now interesting to hear the food processors say, "Poor us," while, during the time from 1969 to 1987, they enjoyed some benefits of it.

I guess I will put this in the form of a question. You talked about the cash receipt loss of two per cent of \$5.5 billion. That is gross farm receipts. What would that \$100 million be as a percentage of net farm income? After that \$5.5 billion, what is net farm income in Ontario?

Mr. Seguin: What is net farm income?

Dr. Switzer: About \$1 billion plus.

Mr. Seguin: A little over \$1 billion. So it is about 10 per cent.

Mr. Pelissero: OK, so it is a 10 per cent loss, because I would maintain that that \$100 million you are going to lose is, in fact, net income. It is not gross income; it is net income that you are losing because of that. It is not, in fact, two per cent. It is closer to a 10 per cent loss, in terms of making a modest comparison.

With respect to the sugar statement and the sweetener statement, again, we are going to have to take a look at that.

I have had discussions. As president of the federation, I tried to talk to the different sectors and say, "OK, are you in favour or against?" They have all said, "We don't want to benefit at the expense of another sector." In fact, on that plus and minus chart that you have done there, the net benefit to agriculture is not there. It is a loss of \$95 million to \$100 million, depending on how the federal government decides to handle the two-price wheat system, in terms of how they are going to compensate that. There have been some comments about that.

I am interested in the snapback provision. Am I interpreting that right? Basically, we have limited the growth within our fruit and vegetable industry because of that snapback provision?

Dr. Collin: It depends on what you measure as the basis. If you assume it is an acreage measurement--and I think you have to speculate about what they are talking about--you could probably have productivity gains of two per cent to three per cent per year by better fertilization. So it is very difficult to ask. One thing we have asked our federal counterparts is, in fact, how well they coped with all of the data, the acreage measurement, where there may be 35 or 40 fruit and vegetable commodities. It just boggles the mind to try to come up with some measurement to apply the snapback provision or to refute the opportunity to claim the snapback. It is a very difficult thing to define.

Mr. Pelissero: In terms of complexity, if we just shift that over to the grain and the wheat sector where they are trying to develop some kind of formula, I have heard that the formula for developing whether we are at a level playing field is some 27 pages in length?

Dr. Switzer: Twenty-seven.

Mr. Pelissero: Twenty-seven pages in length, to try to define a formula to see if the aid or the assistance given to the American farmer and the Canadian farmer happens to be the same--27 pages. This is called either a mathematician's nightmare or a mathematician's dream, and if any one of those factors within that formula changes, for whatever reason, it just throws the whole thing out of whack.

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So I have some very serious concerns. I guess I have a concern when we, in a public way, put up a document that says there is going to be a modest impact. I think that is grossly understating the impact on the agricultural sector in certain sectors.

As you say, there may be some gains in some areas but depending on a couple of things, such as the value of the Canadian versus the American dollar. Certainly in the red meat industry, that is a factor. We may produce high-quality beef, but if you bring that dollar back close to par and then try sending it into the United States, you may find you get a different reaction. There are a number of factors that I think we have not looked at closely enough yet.

I appreciate the comment that you have some serious concerns and I think that, on the whole, I would like to see the word "modest" taken out of your presentation and a different word put in, or just delete the word "modest."

Dr. Switzer: "Modest" is a word that is the mind of the beholder, I guess. The bottom line is that there is a \$100-million loss, the best way we have to think of it. If you want to take another word for "modest," feel free. We picked that word because I guess we felt that "modest", whether it is \$5 billion or \$1 billion, is not major.

It depends a heck of a lot on where you sit. If I were sitting as a grape producer, I sure as heck would not call this a modest agreement. If I were sitting as a red wheat producer, I would not call it a modest agreement. If I were sitting as red meat producer, maybe I would not call it a modest agreement either, but for opposite reasons.

I hardly need to explain to Mr. Pelissero the complexity of the agricultural industry in Ontario. He knows it better than I do. He knows that for us to sit here and make an average judgement is a very, very difficult thing. My minister does more than I, but all of us have to go out and talk to potato growers, to beef producers, to pork producers, grape growers and whatever, and each one of them has his own view of what the free trade agreement is.

What we have tried to present to you is an overview of the whole thing, which, as I repeat, is a \$100-million loss, and \$100 million, in my way of thinking, certainly is not modest.

Mr. Pelissero: It is not chicken-feed.

Dr. Switzer: What word would you use to describe it? I guess that is where I am--

Mr. Chairman: I guess it is the difference between politicians and bureaucrats.

Mr. Pelissero: No, I just wanted to get it on some kind of record, since the public is viewing and we have reporters here, to try to help the nonagricultural population understand the intricacies of agriculture, because they just simply say in some sectors, "Well, are you for it or against it?" without really trying to understand what goes beyond the surface. That was more my method or methodology or reasoning behind saying "modest."

Mr. Sterling: I am very amused by Mr. Pelissero's analogies and his conclusions and his accounting, etc. I never understood that if you lost a market and you were feeding hogs--if you did not sell the pig, I guess you would not feed the pig. Mr. Pelissero likes to draw the conclusion that you are still feeding the pig and you lost the feed as well as the market, and therefore he draws a conclusion that this is a 10 per cent loss rather than a modest two per cent loss, as stated by the deputy minister.

Mr. Pelissero: Red meat gains.

Mr. Sterling: I was drawing that as an analogy in terms of what was happening.

Mr. Pelissero: Try one that works.

Mr. Sterling: Dr. Switzer, I have a number of questions related to various areas. In your table you mentioned a loss of \$10 million in the dairy industry. Was that based on the expected announcement today that yoghurt and ice cream would be on the protected list or was that based on the fact that it was off the protected list?

Dr. Switzer: I will ask Mr. Seguin to answer your question specifically, but I would have to say that when we wrote the report, when we put that table together, we did not know about any potential announcement today. I guess it really was not based on that because we did not know about it.

Mr. Seguin: I am afraid I was caught in another conversation, Mr. Sterling. The question again was?

Mr. Sterling: Was the loss of \$10 million in the dairy industry based on yoghurt and ice cream being on the protected list?

Mr. Seguin: It is estimated on what the prices would have to drop to maintain market share in the dairy industry for those products. In fact, you are going to have to compete at those lower prices. Now, the fact that Mr. Wise may announce today restrictions on those imports will limit that loss. What we do not know as yet is what levels he will set for the imports.

Mr. Sterling: Assuming they are reasonable levels, then the \$10 million would come off that list?

Mr. Seguin: It could be dropped; if not completely, it could be reduced somewhat, depending on the levels.

Mr. Sterling: So it may even go down from the modest two per cent that was talked about before and maybe less than that modest two per cent that the deputy minister talked about. It may be a modest 1.5 per cent or 1.8 per cent.

Mr. Ferraro: Do not be modest.

Mr. Sterling: I will try not to. I do not have that problem.

Mr. Neumann: How does eliminating 10 out of 100 reduce it from two to one?

Mr. Sterling: Ten out of 95, I thought was on there, to be accurate.

Talking about the grape growers, you acknowledged that they are the hardest hit in this particular area.

Dr. Switzer: As a sector.

Mr. Sterling: Yes, as a sector. How do you expect that GATT ruling to affect the grape growers, taking away this bilateral trade agreement? You know, the attack that there is on the existence of--

Dr. Switzer: Mr. Sterling, I just cannot answer your question. All I know is that the government of Canada will be engaging in some kind of negotiations with the Europeans as a result of the GATT panel finding. What would be the outcome of that I have no idea.

Mr. Sterling: Given that the grape growers and the Ontario Federation of Agriculture see that the adjustment resulting from this agreement is both a provincial and a federal responsibility, what has the province offered to the grape growers at this time?

Dr. Switzer: I do not think there has been any offer per se. What we have done is to set up a committee, task force--call it what you will--to work with the grape growers to look at some way of meeting what we are speculating will be the upshot of the free trade agreement, and this committee is working very actively at the present time.

We have taken one of our top people, the former director of the Horticultural Research Institute of Ontario at Vineland, and seconded him from his job to work 100 per cent of his time with that committee, with the grape growers and with the wineries--I may say, the wineries are involved in this too--to try to find how best to meet this perceived problem that we are going to have.

Again, I would be prejudicing what the committee might come up with to say too much about it, because I do not know exactly what they are going to come up with, but presumably they will be looking at vineyard reduction; presumably they will be looking at the possibility of some way of subsidizing the prices that the grape growers receive in order to make them competitive with the possibility of grapes or juice coming in from the US.

Those are just presumptions, but what I am telling you is that we have this committee that is working practically full-time now on trying to come up with some solutions to what we perceive as major problems.

Mr. Sterling: Under the present situation in the past, say, five years, have grape growers been assisted by the government from time to time?

Dr. Switzer: I understand that has happened, particularly since the summer of, I guess, 1984, which was, I believe, the date of the first buying of surplus grapes. Normally that has been a division between the federal government and the province of Ontario.

Mr. Sterling: How much has that cost over the last three years?

Dr. Switzer: Gosh, I do not know whether I can give you the exact figures, but I suppose in round numbers it has cost each level of government, I do not know, somewhere between \$1.5 million and \$2 million each per year for surplus grapes, in that ball park. I am sure the figures are available to you more specifically.

Mr. Sterling: So out of the \$30 million, there is overproduction of 15 per cent, 20 per cent?

Dr. Switzer: To go year by year, last year I am not sure just what was the overproduction.

Mr. Seguin: The amount of surplus production varies, of course, by crop year, depending on the amount of protection. A rough estimate may be 10 per cent or so. Then that also goes back to why there is surplus production, why there is surplus anywhere in the system, and it goes back to the whole issue GATT raised. Our industry is competing in a very awkward marketplace for subsidized production landed here in Canada, and it is a question maybe of being the responsibility of which parties.

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Also, the deputy mentioned the costs of these programs. I believe, over the past two years in particular, the grape growers have reduced the price they will receive as their contribution to reducing the cost in the surplus program. There is almost a tripartite deal here.

Mr. Sterling: In the other area, the area of red meats and the differentiation between Ontario and the west, has the province offered anything to red meat producers here in Ontario or do we have any program to assist them? What is the adjustment situation in that area?

Dr. Switzer: We work with them the same as any others in terms of supplying information. I am not aware of any financial assistance.

Mr. Sterling: You do not have any adjustment programs under way or you have not thought about adjustment programs.

Dr. Switzer: There has not been a need for any adjustment programs to date. No, I do not think we are in the process of this at the moment.

Mr. Sterling: I am concerned about the processors, particularly people who are producing products which have to compete directly with American frozen products. I am talking mostly about chicken and turkey. Have we made any presentations to the federal agricultural minister in this regard since the agreement came down?

Dr. Switzer: Yes, but--

Mr. Sterling: What were we asking for?

Dr. Collin: The minister has gone on record in supporting a committee of poultry producers, processors and interested parties in the poultry industry to ask that those kinds of issues, such as frozen TV dinners, be added to the import control list.

Mr. Sterling: Has there been any approach in terms of the marketing boards to deal with them? I understand the differential in price between producing a pound of either turkey or poultry is about 20 cents in terms of the American and the Canadian production and that is the major problem in producing a competitive product here. In other words, the processors think they can produce head to head if they have the same price coming in in terms of their raw product. Is there any move on the part of the producers to become more competitive in terms of dealing with the Americans?

Dr. Collin: As you well know, many of the poultry boards, in fact, use cost-of-production formulas which are fairly complex. I do not pretend to be an expert, but in the pricing of those products there is a degree of dialogue that has, in fact, dropped the price recently below cost of production to meet the pressures of imported products.

Mr. Sterling: It is a tough problem that has to be dealt with in some way or the other or it is eventually going to hurt not only the processors but also the producers, because if you do not have the processors turning that part of it--these two areas are a tremendously large part of the overall market for the producers, and we are very much concerned about that. There are various methods of looking at this, and one of them is to become more competitive. While we stand for the producers, we also stand for the consumers in terms of buying these products in the end.

One of the criticisms, of course, of market supply systems is that inefficiencies do creep in. I have heard some of the producers in my area under another market supply system say they thought the most recent increases should not have taken place in their particular commodity, because they thought, in that particular case, they could sell more product by keeping the price down. I am just reflecting what some of them are saying; I am not reflecting what they are saying as a whole.

The other questions with regard to this whole thing are questions about the Ontario Federation of Agriculture and whether or not it has taken a firm stand on this. I had understood that when the OFA has made its presentation to our caucus, it was a mixed message we were getting from it in terms of a definitive stand on where it was. I suspected it was going to make a definitive stand.

They are faced with the same problem you gentlemen are in that they represent a lot of different sectors in agriculture. Therefore, it is very difficult for them to draw a line on a wide-reaching agreement like this. Have they said definitively, "We reject the agreement" and where have they said that?

Dr. Switzer: I can do no better I guess, Mr. Sterling, than refer you back to what the chairman said earlier. He has more up-to-date information there than I do. From what he shared with us a while ago, it sounded like they had made a definitive statement.

Mr. Chairman: I will share that document with the committee. I presume it was given to me for that purpose.

Mr. Sterling: I have looked at the document you are referring to. With deference, I think it does not say they reject the agreement; it says they have certain questions about it. I think their concern is more about what you were mentioning before, the potential effects of that particular agreement. They have not said they reject it in total at this time. When they are here, of course, they will be able to be more definitive on it.

Dr. Switzer: I am sure Mrs. Pyke will give you a definitive statement.

Mr. Sterling: She has a difficult job.

Dr. Switzer: I agree.

Mr. Chairman: Do you have any other questions, Mr. Sterling?

Mr. Sterling: Yes. I just wanted to say that in terms of the limited experience I have had with the General Agreement on Tariffs and Trade, I talked with the Canadian negotiator at GATT, when I went with the Premier (Mr. Peterson) to Geneva and happened to meet him. Just by chance he lives in the same community I do. I am actually amazed that they did not reject dealing with agriculture under this agreement, because it is a very difficult area because of the complexity of the number of the issues that you have to deal with when you deal with agriculture in either a bilateral or a multilateral agreement and the extremely complex nature of it.

I really hope this agreement will work to the benefit of both sides in the final analysis. I think it is a valiant effort to try to maintain the two existing systems intact as much as they possibly could and to try to be fair to both sides. Notwithstanding the bit of sarcasm that I might have had in my opening remarks to you about the modest impact that it has overall in terms of the agricultural industry--I think it is in fact a modest impact in terms of the agricultural industry--most of the apprehension relates to problems that could or could not exist in the future.

That is in part due to the trouble that the agricultural industry has been in over the last three, four or five years. Therefore, I would hope that the agricultural community would look at this as an opportunity to increase efficiency by improving the income of both the lots on both sides of the border and to face the fact that the number of countries that are now becoming self-sufficient in agriculture seems to be growing year by year.

There is a more competitive market on a worldwide basis not only in the United States but also in seven, eight, nine or 10 countries which are now self-sufficient in agriculture. If you go back 10 years, you would only find three or four that were self-sufficient in agriculture then. Therefore, the bottom line is that the markets are shrinking in general.

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The Canadian negotiator of the General Agreement on Tariffs and Trade related a story to the Premier and myself. He mentioned there was a gentleman who had a farm in France and a farm in Minnesota. Both farms were approximately the same size and doing the same agricultural effects. He made \$30,000 on his farm in the United States. I do not know how large it was; it was a fair size. He made \$300,000 in France. That is the level of subsidy and the level of how complex and how much the politicians have meddled into the whole area. That is why I look at this kind of agreement, where there is an attempt to try to smooth out even a few of the minor areas, as a real plus.

The other thing is that I had an opportunity to--

Mr. Chairman: Do you have a question, Mr. Sterling?

Mr. Sterling: Yes, I do, at the end. In essence, these GATT negotiations are going to try to deal with the agricultural area more than anything else, because it is costing countries all over the world such phenomenal amounts in subsidies to deal with their agricultural industries.

I do not know how hopeful we can be that that is going to happen, but I think something will happen. There is a tremendous opportunity for Canada and

the United States to be leaders in that because there is a vacuum right now in all of the negotiations. I would really like to think that this bilateral agreement will act as an example of how two countries can get together and try to resolve some of the differences: not all of them, but some of them. Would you like to comment? That is my question.

Dr. Switzer: On which part?

Mr. Chairman: I wonder if you could enlighten us, Mr. Sterling. When did you go to Geneva with the Premier and which Premier?

Mr. Sterling: I went to Geneva in October with Premier Peterson.

Dr. Switzer: I would only comment that I think Mr. Sterling has put his finger on the difficulties the world faces in agriculture. That comes right back to Mr. Mackenzie's concerns about subsidies. On this business of the European farmer and his \$300,000 or whatever it was in profit: That is obviously not what he made from the land, but what he made from the government. That is why our farmers have been at a disadvantage with US farmers and with farmers in Europe; while we may be accused of providing subsidies, in fact we do not supply anywhere near the subsidies they do in some other countries. It is going to be a very difficult for GATT to iron this out. I agree with you that I hope we Canadians can play a role in that because it is going to benefit us as much or perhaps more than any other country.

Mr. Sterling: Your answer was much shorter than my question.

Mr. Chairman: That is true.

Dr. Switzer: There were several other points you raised which we could talk about another time.

Mr. Morin-Strom: First, I would like to thank Dr. Switzer and his personnel for bringing us the information they have today. In particular, thank you for the sectoral analysis of the agricultural farm sector, of where the winners and losers might be; your assessment projected a potential of \$100 million in annual agricultural revenues being lost to the farmers, most particularly here in Ontario.

I wonder if it is possible to get an assessment of the same type on the food-processing part of the industry, which I understand is even larger than the farm producing sector itself, which you have analysed to this point.

Dr. Switzer: I will say, just as a preamble and then let one of my colleagues try to answer you more specifically, that I hope you would recognize it is an extremely difficult thing to get a handle on. The producing end was difficult enough and our guys spent an awful lot of time coming up with the numbers we showed you in about 30 seconds today. Literally months of work have gone into the preparation of what I gave you in one table. I do not know, Bob, whether you would like to try to answer more specifically where we are in our studies of what the possible impacts might be on the food processors.

Mr. Seguin: In general terms, what we found was the difficulty of trying to analyse from the food product end because of all the myriad of products and variations you can get. We focused on the farm product, the farm side and the impact that would have, recognizing, though, that if the

processors can access cheaper inputs, they may be more able to compete with their American counterparts. It becomes a balancing act on their side. That is why we focused on the farm side.

The deputy raised and commented several times on focusing on the number of uncertainties the food processors have to face and what the impact of certain federal or provincial policies may be. We are still proceeding with that. It is difficult when you are dealing with a company that makes several hundred products. Some of them may be in direct competition with their American counterparts and some may not. Some may meet a regional demand. We are trying to finalize where that is. We are slowly proceeding through it. We are also going back and trying to have discussions with individual processors to see where they are within their own individual companies. I believe the question raised by Mr. Neumann was about reinvestment plans in future and relocation plans. We are trying to analyse those in greater detail.

Mr. Morin-Strom: I take it you recognize the concerns of the workers in those food processing plants, who feel that their jobs are vulnerable. The future operation of their plants in total may well be vulnerable in many cases, most particularly with branch plant operations. Many of our food processors here in the province are not Canadian owned, are not independent operations, but are just branch plant stuff of American operations.

We have many communities which have significant smaller industry in the food processing areas of southern Ontario. You did mention that some studies are going on. Could you tell us what surveys you have done, what studies are ongoing, when the results will be available and when our committee could expect to see those results?

Mr. Seguin: As I said, Mr. Morin-Strom, the analysis is ongoing now with the food processors in greater depth. We have to hear from the food processor, food producing side. We are now initiating discussions with individual food processors, some of the ones that own branch plants, to see what they are doing in detail and go over them.

I cannot give you a specified date when that will be completed because of all the difficulties in trying to set up these meetings to meet with them and go through it. It is our intent, though, that we will release in detail the study, I guess in the near future. It has not been finalized, with all the paperwork and the typos involved in it. It is our intent to release this study in detail and then we will be looking at the food processing side. I cannot specify a date on that because we are still working through it and we have a myriad of companies and product lines to look at.

Mr. Morin-Strom: Is that an internal study or have you commissioned any outside--

Mr. Seguin: On that one, no, we have not as yet. We are going to use the resources we have internally at this time.

Mr. Morin-Strom: The other question I would like to ask is in the area of land ownership. One concern we may well have in the future in this country is whether we will still have our farm lands in the hands of Canadian farmers, or whether we may well end up going the route of corporate farming as in the US, with the buying out of tremendous amounts of farm land in Canada by corporate operations from the United States. Will there be the possibility for governments in Ontario or in Canada in the future to take steps to ensure that the ownership of Canadian farm lands remains in the hands of Canadians?

Dr. Switzer: I guess I do not feel fully qualified to speak on behalf of government. I think that is specifically what you said. I am not trying to be facetious or anything.

Mr. Morin-Strom: I am not asking whether we should take those policies. I am asking, will we have the opportunity? Will such policies be precluded for future governments?

Dr. Switzer: Again, I would only give you an opinion and it might prove to be wrong. In my opinion, it would not be precluded from the options of future governments to have policies in place to maintain Canadian ownership, I believe you said, of a family farm. Certainly all the policies that I have been involved with in the four years I have been in this job would imply that both governments that I have worked for would have that in their interests. I have not seen anything that would lead me other ways.

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Mr. Morin-Strom: Is it not the case that the investment provisions of the agreement necessitate Canadians giving national treatment to Americans so that they have the same right to act within Canada as Canadians would, particularly when it comes to corporate investment?

Dr. Switzer: I honestly do not know. Maybe Bob can help you on this, because I am no expert in corporate investments. But I think from a farm point of view--we are not talking about corporate investments, we are talking about individual ownership; at least I assume that is what you are asking about--I do not see that for the individual ownership of farms in this country, anything in the nature of what you are talking about would have much impact.

I can see where there might be an impact on anything that would force farmers off the land. This is why we are concerned about this \$100-million loss we are talking about here, how many more farmers might go under because of that \$100-million loss, that that would perhaps open the door for what you are talking about. But unless I am missing something here--Bob, do you want to comment on this?

Mr. Seguin: If I may respond to that, the point you raise is one that has been raised as a concern. We have not had the time to investigate in depth because of our lack of understanding of all the details of the investment side, but it is one that has been raised, this whole issue of national treatment, I guess, the right of establishment and all these other items.

I believe that the investment side does pose some new difficulties in the future, but how do we design any future program with such limits if you want to impose those? However, with the maintenance of the supply management systems, some of those restrictions in vertical integration will be maintained as long as the supply management systems remain intact. However, how long those remain intact over a length of time is also coming up for question.

To answer your question about the investment provisions as they again impact on agriculture, we have not done an analysis on that aspect.

Mr. Chairman: National treatment would seem to say that we have to permit American citizens to partake in any purchases of establishing new business enterprises. I am looking at article 1602.

I understand that Prince Edward Island has laws that prohibit nonislanders from buying farms. If that is the case, it would seem to affect that kind of law. If we wanted to do something similar here, it is just my own reaction that Mr. Morin-Strom perhaps has a very valid point.

Mr. Seguin: This has been raised, I believe, at one of the meetings of the trade negotiator's office and the cabinet committee trade negotiating teams about the interrelationships between various provinces on their own land use restrictions. I believe Saskatchewan and PEI were used as examples that have specific restrictions on provincial use, whereas if you had national treatment, as long as all Canadians are treated equally, all Americans would be. But then it depends on the definition of "establishment."

Mr. Chairman: Yes.

Mr. Morin-Strom: I guess I just hope the ministry would look at this point as to whether it could be one of concern down the road if we did have an influx of American corporations coming in and buying up Canadian farm land and we want to protect our opportunity to own our own farm land.

Dr. Switzer: I will certainly take that point.

Mr. Seguin: The last comment that the deputy made in the conclusions was that our policies remain tempered with our US trade law, US agreement and by the GATT. This is one of those trade policies that will be tempered.

Mr. Morin-Strom: There is one other new area which has not been mentioned here at all so far that I would like to bring up. It has to do with schedule 7 of annex 708.1 in the trade agreement itself regarding pesticides. In this schedule it says: "The parties shall, with respect to pesticides," undertake a number of activities, including "(c) work toward equivalent guidelines, technical regulations, standards and test methods; (d) work toward equivalent residue monitoring programs; (e) work toward equivalent technical regulations, standards or certifications for those pesticides selected by the parties; and (f) work toward equivalence in (i) the process of risk/benefit assessment, (ii) tolerance setting, and," etc.

This very much sounds like there is a commitment between the two governments to work towards the unification of environmental policies as they concern pesticides in the area of agriculture. Is that the way you read this section?

Dr. Switzer: I must admit that I am not familiar with the specific thing you just read out, but as you read it, it sounds that way, yes.

Mr. Morin-Strom: Do you feel, and do you not think that a lot of Canadians would feel, that a requirement that Canada and the US unify their environment policies is an affront to Canada's right to set its own standard for environmental requirements and for setting standards for the safety and health of the people of this province?

Dr. Switzer: I would comment only on my own view as a Canadian, I guess, that I would hope that this country maintains all of its own rights to set its various policies, be they on pesticide standards or energy or anything else. I cannot see how any Canadian would not share that view. I would hate to see our rules made south of the border.

I guess there are two sides of this. Mr. Pelissero mentioned earlier a particular herbicide called alachlor and expressed, I believe, his concern that the farmers in the United States were allowed to use a chemical that our farmers are not allowed to use at the present time in Canada.

I guess what I am trying to get at here is that there are really two sides to this. There is an environmental concern, and you could use alachlor as an example. People who have a pronounced interest in the environment, to the exclusion of all else, might very well say that it makes sense for Canada to exclude alachlor because it might, in their opinion, have a negative effect on the environment.

The United States, on the other hand, has said that if it has an effect on the environment that is minimal and its benefit outweighs that small risk. The large benefit to the farmers and the consumers of the United States outweighs the small risk to the environment.

I hardly need to tell you this, but I guess what I am trying to get at is that nothing is ever really as simple as it seems. While I agree with your general principle that I would like to see us here be able to set our own environmental rules--and I do not back off on that for a minute--I hope that those rules would be set with some risk/benefit thought as to what we were excluding from the farmers of this country.

Mr. Morin-Strom: Let us take your example of alachlor then. You are making the point that right now there is pressure on governments in Canada from the farm community to allow it to be in the same competitive position as the American farmers and be able to use a product which has been a benefit to farms in the United States. Is it not the case that by eliminating all the tariff barriers and opening up as much as possible the agriculture and food-processing sector to free trade, we increase that kind of pressure from the farming community, and from other industrial competitive situations as well, that will require us to move our environmental controls and regulations as close as possible to the American ones?

Dr. Switzer: Yes, I would say that is, to me, a downside of the way I understand the agreement. I guess the only thing I can think of that might counteract that--I am trying to be as fair as I can--is whether or not some of these rules on--I forgot the exact words here, Peter, but the regulatory end of that. What do they call it?

Mr. Rzakki: The technical--

Dr. Switzer: The technical regulations. If that was equalized across the borders, then that might tend to compensate for some of the things you are saying, but superficially at least, I agree with your point.

Mr. Morin-Strom: Just for the sake of information in terms of pesticide regulation and testing procedures, could you just brief us on what the co-operation currently is between Canadian and American authorities? Of pesticides, let us say, that are being tested or receiving approval, is it the case that 90 per cent of the time it is us following and accepting their approval as a legitimate one, or are they accepting our testing and results as being sufficient for their standards?

Dr. Switzer: I do not know, Mr. Chairman, how long an answer you want. I can keep us here until until six o'clock on this, if you want.

The Vice-Chairman: No, we do not.

Mr. Morin-Strom: Undoubtedly, there is co-operation going on. Who, more or less, is setting the rules?

Dr. Switzer: The rules are being set by Canada. There is no question about that. If a company wants to have a pesticide registered in Canada, that chemical must be tested in Canada. The results of the tests in Canada are then used by the people in Ottawa, Department of National Health and Welfare, Agriculture Canada and others, to decide whether it is efficient enough to be tested here. The data that may be used which is not home-grown data, if I can put it that way, is data on long-term health effects, because at the moment we do not have in Canada the facility to draw together some of this information.

Normally, what the federal government does is to utilize information the company itself has put together on the long-term health effects of the particular product. Of course, this province has its own rules, through the Pesticides Advisory Committee and the Ministry of the Environment, about whether a product that is registered in Canada can be given a number for use in Ontario. There are two levels of checking, but at the present, basically any chemical product, any pesticidal product, used in Canada has to be tested in this country and that data is used in deciding whether it should be used here.

Mr. Morin-Strom: The US has its own testing procedure completely separate from yours?

Dr. Switzer: Yes, at the government level. I would not want to lead you astray; there are some common data used of long-term effects on animals and things of this kind, which are very difficult and very expensive to get. That might be the same data used in Washington and Ottawa.

Mr. Morin-Strom: A final point on pesticides. You talk about the work towards equivalence in the process for risk/benefit assessment. How can we reach a consensus on that when, with an issue as high-profile as acid rain, which has had thousands of scientists looking at it and both governments very seriously aware of the situation, the US government does not accept it as a threat under their definition of risk/benefit assessment, one which is totally contrary to what is accepted both by the Canadian public and by scientific expertise in environmental areas in Canada?

Given that kind of contradiction on such a high-profile issue as acid rain, how can we submit to reaching equivalent guidelines, equivalent monitoring programs, equivalent technical regulations and equivalent risk/benefit assessment when it comes to pesticides for agriculture?

Dr. Switzer: I really do not know. It is an extremely difficult thing you have put your finger on. I do not know whether we ever would get to that point. We have trouble in our own country. Again, to go back a few years, there was a risk/benefit assessment made of a particular herbicide in Alberta; they decided to allow it because, under the conditions in Alberta, they felt the benefits outweighed the risk. We in this province did not use it because we felt that the environmental risks outweighed the benefits.

So here, right in our own country, we could not come to an agreement as to the use of that particular herbicide. I am going back 10 years, but I suspect the same principles apply now. You asked me how we are ever going to arrive at an equivalence of risk/benefit, and I say to you that I do not know.

Mr. Morin-Strom: Thank you.

Mr. Chairman: I wonder if we could speed up the questions a bit, because our guests have been with us for more than two hours now.

Mr. Beer: I will try to be very brief. As someone who comes from a nonagricultural background but who has a significant part of his riding in the Holland Marsh, an area very important to agriculture, I have been interested in listening to the questions and the responses and looking at the chart. I want to make sure I understand it, so if my questions seem perhaps somewhat simplistic, I hope you will bear with me.

Dr. Switzer: I will not only bear with you, but I might be able to answer you.

Mr. Beer: Would I take it correctly that the figure of \$100 million which you outlined as the impact, give or take what Mr. Wise may or may not have said today, in your view represents a minimum loss? If nothing else much happens, if we go through to the end of the year and the agreement is implemented and we keep our market share of this, that and the other, would that represent roughly a kind of minimum loss impact on Ontario? Would that be fair?

Dr. Switzer: This is such a simplistic question that I would like to ask Mr. Seguin to answer it.

Mr. Seguin: That would be our best estimate. There would be a minimum loss, provided there are no other major policy decisions made.

Mr. Beer: Within that, in terms of a number of the questions that have been asked when we talked about supply management, where the marketing boards go in this and, particularly, the food processing industry, I had the very strong sense that this is where there are a tremendous number of unknowns. It is difficult to know just what might happen.

But just again, so that I am clear, I think I heard at one point somebody saying that in the food processing area it is possible that in future, if this agreement goes through, an increasing amount of processing will be done in the United States and it might be that all of the production of certain items that have a shelf life of more than so many weeks might in fact ultimately be done in the United States. Whether or not that is true in that sort of black and white sense, presumably one of the areas you would be most concerned about is the loss of much major, or any, food processing that currently goes on here.

Do I understand from answers to other questions that you are looking at possible scenarios--worst case, medium range and so on--in terms of what may happen to our food processing industry and the impact that might have on what we are producing as a farming province?

It seems to me there is a link there. We might have people who have the acreage but have nobody to produce for any more. At least, that is one interpretation. Would that be a concern?

Mr. Seguin: Yes, that is what we are looking at. Right now we have looked at the impact on the farmers. I am assuming that processors maintain. Next, we will look at the processors, and if they change substantially, that of course naturally impacts on the farmers. In production, they can sell within the domestic marketplace. If they could not, they would have to sell at export or cease production totally.

We focus on the farm sector partially because, first, it is the easiest to focus on, the best to get a handle on. Second, we are now looking at the food processing sector and we have also based it on the discussions we have had with the minister and his staff about the food processing sector.

As I said before, there are a myriad of problems and difficulties that ensue and we are in the process now of following it up with individual discussions.

Mr. Beer: So it is fair to say that in addition to the pluses and minuses that you have blocked out in the \$100 million, we are still very much in a grey area in terms of knowing potentially what other losses might accrue because of dramatic changes that could occur in the food processing area. I suppose, in that sense, the major losses which were in the fruit and vegetable area--we looked at chicken, turkey and so on--depending on who is putting all that together and in what form and where, that could have an impact on those two industries in terms of our farmers here in Ontario.

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Mr. Seguin: Yes, you are right.

Mr. Beer: From that then, I guess the dilemma that you face is the extent to which you will know or can know where those changes are going to come or what kind of protection can be built in. Let me put it this way. In terms of our farming industry, apart from our dollar, which I assume would be attractive to some of the American processors, are there other significant benefits you see that they have in locating in Ontario, in addition to the low dollar, as opposed to moving south or simply adding on a larger run in a number of their plants in the United States?

Do you feel that we have some intrinsic advantages over tomato producers in Michigan or Iowa, or places like that, or is it really that they have been here and the low dollar assists and therefore they remain? What other factors would induce them to stay here under a free trade agreement?

Mr. Seguin: A number of factors could be involved. The fact that the plant facilities and labour are here now and servicing a market. They feel comfortable with it. They have a distribution system set up dealing from that plant. However, it depends--again there have been points raised on this--when a multinational reviews its corporate plans, the excess capacity may or may not have its facilities south of the border, which may more than compensate for that. That is the point we now have to look at.

The Grocery Products Manufacturers of Canada have done a survey of their members indicating generally that they would be able to access product at competitive prices in Canada. There would be no major shifts. But that supposes we can access product and there would be no other policy changes.

Mr. Beer: So you want to follow that through.

Mr. Seguin: We are concerned about the amount of capacity of the United States, but there are a number of factors in Canada. A number of firms in Canada have done quite well both in this country and south of the border, and we have to recognize that.

Mr. Beer: Just one final question, which is perhaps somewhat related. I ran into a situation earlier, and I am looking here at the interprovincial aspect of this. If this goes through and we say there cannot be dumping, is there any follow-through here that the Canadian provinces have agreed to implicitly, or in any other way, about what is seen at times as dumping internally, province to province?

An example is onions. Sometimes, dare I say, a sister province to the east--I know some of the producers in my area feel that onions appear in Toronto at a price that is not quite fair. I suppose we are in a situation where you cannot dump from the United States to Canada or vice versa, but we still run into problems internally. Has this led to any vigorous thinking or attempts to handle that kind of problem?

Dr. Switzer: I guess it is no news to anybody in this room that the first ministers agreed to a national agricultural strategy about a year and two months ago. The ministers of agriculture across the country and their staffs have been working hard to try to put that national agricultural strategy in place. Part of that relates to the concept that you mentioned here of interprovincial trade barriers and unfairnesses, and things of this kind.

Once again, it is an extremely difficult thing to grapple with. My staff has spent a lot of time talking to the staff of my counterpart in Quebec vis-à-vis some of the problems that we have across our own border. I would not say we have them all resolved, but I can pick one we recently did resolve, the matter of honey. There was a real problem between the two provinces in honey. After a lot of debate and discussion, that has now been resolved.

I am optimistic enough to think that sooner or later we may get our own house in order in this country and solve some of these problems of an interprovincial nature. You put your finger right on a very important point. I hope we can get it resolved.

Mr. Chairman: With the committee's indulgence because of the time, Mr. McGuigan wants to ask a very quick supplementary. I then have Mr. Haggerty, Mr. McCague and Mr. Neumann. Mr. Haggerty and Mr. Neumann have already asked questions. I am wondering if they would perhaps ask their questions--

Mr. Haggerty: I am sure other members have asked on the second round too.

Mr. Morin-Strom: No, no one has.

Mr. Chairman: Mr. McCague has not.

Mr. Haggerty: No, I am not talking about you, George, but other members have.

Mr. Chairman: If that is all right.

Mr. Haggerty: It is all right. Go ahead. Let him go.

Mr. Chairman: If it is, I will ask Mr. McGuigan to ask a very quick supplementary and then Mr. McCague perhaps to close off the questioning.

Mr. McGuigan: My question is supplementary to Mr. Beer's question. Have you looked at the downstream effects of the loss of the \$100 million? It is a large sum, but I suppose in all of Ontario it might be viewed by some as a small number.

In southwestern Ontario where I come from, a great many of the farms there have large acreages of corn and soybeans, most of which are produced at a break-even point or even below the break-even point. For instance, the estimated cost of corn is \$3.50 a bushel and the total price, including the stabilization, is about \$2.95. Those people look to their vegetable crops--tomatoes largely but also others of lesser importance--as the profitable crops. It is my view that if they go, so does the farm and so does the soybeans and the corn. There is also the downstream affect of losing this. In the processing industry, it has an effect upon labour and transportation and all of those other sorts of things. I wonder if you have given that any thought and looked at it.

Mr. Seguin: Maybe not to your satisfaction, Mr. McGuigan, but we have looked at it and focused, I guess, on the Niagara region, on a regional impact of this downstream effect, because of the fruits, vegetables and grape impact. This agreement, in our view, has a severe impact on the Niagara region as a region of Ontario.

The point you have raised, though, is downstream on farmers with secondary enterprises, which is something we would like to look at when we have a little more time. How could farmers adjust within their operations and is it possible to adjust? At this time, we have just kind of assumed that they continue, that they could take a lower price, and what would that be to them? Then we would have to take a look at the question, if they could not take a lower price, how would they adjust to cropping patterns? The point you have raised is a good one. Some of these enterprises offer that secondary income, which allows the whole farm enterprise to stay afloat.

Dr. Switzer: If I could just add briefly to that, it seems to me that this is always the danger when we say \$100 million in so many million or billion, or whatever it is.

Mr. McGuigan: About \$5.5 billion.

Dr. Switzer: Yes. When we say that, it hides a lot of things. I think you have put your finger on something we have all recognized. While we have tried to divide it off by sectors, even within a sector--the fruit and vegetable sector, for example--there are a lot of differences in the way farmers make their money. You have just pointed out another one. It is a part-time job, if you like, for some farmers, but a very important part-time job; so the loss of a few dollars for that person might mean a lot. That is hidden in there. It is very difficult to draw those kinds of things out, but you make a good point in my opinion.

Mr. McCague: The first question is easy. Can we have a copy of your slides?

Mr. Chairman: Yes.

Dr. Switzer: I think we will do better than that. We will give you a copy of our total report. As Mr. Seguin said, it is done. There is no question it is finished, but it is just doing the last editorial bit. We will have that to you, I would say, within two weeks.

Mr. Seguin: Sooner.

Dr. Switzer: Perhaps sooner. I am trying to be on the outside.

Mr. McCague: Maybe we could have the slides.

Dr. Switzer: For reference purposes, ahead of time?

Mr. McCague: Yes, please.

On the import quota on chicken, is the new figure the historical amount of imports during the past, say, three years?

Dr. Switzer: Correct me if I am wrong. I believe it is, including the supplementals.

Mr. Seguin: That is right.

Mr. McCague: I think that point probably was not very clear in the initial presentation, that it was, in fact, the amount of chicken that has been coming in from the United States over the past three or more years.

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Dr. Switzer: Some of the import quota plus the supplemental.

Mr. McCague: Yes, right, but I think the supplemental is no more than the demand for chicken in Ontario that the Ontario people have not been able to supply.

Dr. Switzer: Ontario processors.

Mr. McCague: Right.

Dr. Switzer: Yes.

Mr. McCague: Just in a few words, what will be the effect to farmers of the quotas that were given out most recently?

Dr. Switzer: Are you talking about production quotas?

Mr. McCague: Yes, production quotas.

Dr. Switzer: Again, I am not sure I can give you a good answer.

Mr. McGuigan: Quotas given to the United States?

Mr. McCague: No, given to the farmers.

Dr. Switzer: This is the dividing up of the Canadian total quota.

Mr. McCague: Right.

Dr. Switzer: It is too bad Dr. Collin is not here because he is our expert in that area. Bob, can you help us?

Mr. Seguin: I suspect you will find that initially there would be no impact and that what would happen is that those opportunities in the future to expand that quota as domestic consumption increases, as we have in the past, maybe will have been somewhat restricted by this increase here. Also, you have to recall that while the import quotas increased to allow for global and supplementals in this new level of corporate (inaudible), the supplemental process still exists. So now the total amount of imports could also exceed what is up there if the Canadian supply does not meet Canadian demand. Again, they may end up having some restrictions on future ability to fill quota supplies.

Mr. McCague: I understand you said that when there had to be supplements, that meant the processor in Ontario could not supply it and therefore it got it from the United States. Does that then mean that--

Dr. Switzer: I beg your pardon, Mr. McCague. I think what I was saying was that because of the lack of quota to the Ontario producer, the Ontario producer was not able to supply the amount of chicken that the processor required to meet his commitments to his customers, and therefore he is allowed, under this import quota, to bring in chicken from the United States. Is that not the way it works?

Interjection: That is right.

Mr. McCague: Thank you, Mr. Chairman.

Mr. Chairman: Just to make it clear, my motive was simply that I was worried that perhaps our guests were wearying a little. We have some housekeeping matters we need to look after, but if Mr. Haggerty or Mr. Neumann want to ask very brief questions--

Mr. Haggerty: I just want a brief question. You mentioned, Dr. Switzer, that the General Agreement on Tariffs and Trade is now reviewing the word "subsidy" in interpretation and what it may mean among the 95 participants under the GATT treaty. You also mentioned something about the problem. What effect will this have on farm tax rebate and property for farmers if they consider that as a subsidy? Has anybody in your ministry looked at that at all? What would be the serious shortfall if they were to consider that?

Dr. Switzer: Bob, do you want to comment?

Mr. Seguin: We have only initially looked at it because the negotiating positions of all the major countries have just been tabled. They vary from the Americans who would consider the farm tax rebate program as a major subsidy that should be phased out, to other countries which consider that to be a normal part of the rural infrastructure and should be continued. So we are just looking at it.

We are beginning to work now to see where the negotiating positions are leading to and what that then implies both to the national programs and all the provincial programs and what we may have to adjust to. We will also maybe try to discuss them with the farm groups, saying, "Here is what we see happening through the GATT process," and get some feedback as what the

implications will be to them and how they may want to work through the GATT process.

Mr. Haggerty: Just on that point then, if further information is available, would you pass it on to the committee?

Mr. Seguin: We will pass it through the chairman.

Mr. Neumann: Just quickly, earlier on, in comments in relation to another speaker's questions, you talked about self-sufficiency in agriculture being a trend among some countries.

Dr. Switzer: Mr. Sterling talked about that.

Mr. Neumann: Mr. Sterling mentioned it. I had forgotten who mentioned it. It triggered a question in my mind. What will be the longer-range implications for Canadian self-sufficiency in agriculture with this agreement? Have you any feelings on that?

Dr. Switzer: As far as I am concerned, in our country we are now beyond, and we will always be beyond, self-sufficiency. We have to be, in my opinion, an exporting country in the food area. We have to be because of the nature of our country, and I just do not see us ever getting down into less than self-sufficiency in total.

I used to be a great proponent of self-sufficiency. I used to go around 10 years ago making speeches about how important it was that some of our less-developed countries became self-sufficient. Little did any of us in 1977 and 1978 realize that, as someone pointed out a while ago, we now have gone from a situation where there were three parts of the world then that were self-sufficient and able to be exporters--the three parts being Australia, the United States and Canada; everybody else was a net importer--to a position where we now have a glut of food in the area.

I am rambling on a bit about self-sufficiency. Your question specifically related to Canada. I do not see how the free trade agreement could have an effect on our self-sufficiency. The implication, I suppose, is that under free trade our neighbour to the south might be able to flood our markets because of their better growing conditions. I suppose that is a possibility, but I just cannot see our not being a net exporter of agricultural products.

What could happen, I suppose, if you wanted to think about this for a while, would be that in certain areas where we now produce food products, we might have to get out and go somewhere else. Perhaps grapes is a good example.

Mr. Neumann: The Niagara Peninsula--

Dr. Switzer: Yes.

Mr. Neumann: --the tender fruit area.

Dr. Switzer: That is right. There might be certain regions where we would not be able to compete. But I guess I was talking more about Canada as a whole and our abilities to produce food.

Mr. McGuigan: Could I have one more question?

Mr. Chairman: Very, very quickly, Mr. McGuigan.

Mr. McGuigan: In the poultry area, this agreement has given them a slight increase--I have not got the exact figures here, but it is one or two per cent--in eggs and poultry. At least in eggs, some of that has been gained over the years by subterfuge. The large importers would put in a call saying they wanted 10 carloads of double-yolked eggs--the great big ones--and of course we could not supply that many because the hens only lay a very small percentage of that kind of eggs; but they have already got the deal cooked up with somebody in the United States. Because of their 10 to one size compared to us, they can supply 10 carloads of double-yolked eggs.

Dr. Switzer: I can't believe these things would go on in agriculture.

Mr. McGuigan: These things have happened. Also, at the Easter period when we really cannot supply the demand for eggs for cooking and baking, we use the United States as a supplier of last resort, I guess.

Is the agreement liable to allow them--assuming these things continue, as I assume they will--to get an increasing share of our market?

Dr. Switzer: I guess before you came in, I did express concern for this area. We are concerned as to what might happen. It is uncertain, and I cannot give you a definitive answer. I do not think any of our specialists in the supply marketing system could give you a definitive answer. I can only tell you we are concerned about what has happened thus far in the agreement as to what might happen down to the road. Bob, do you want to add anything to that?

Mr. Seguin: No. I think you have answered that.

Mr. McGuigan: It passes a judgement on the future and probably says it would happen.

Interjection: Yes.

Mr. McGuigan: Certainly the people who have been bringing these in because of the lower-priced market are not going to let up in bringing them in. If I were an American on the other side, it seems to me I would say, "There is a historical market that I am going to grab and nail down."

Dr. Switzer: And with a freer trading environment, you would suggest, it might happen even more.

Mr. McGuigan: I would think so.

Mr. Chairman: Gentlemen, I want to thank you very much. Do you have another comment, Mr. McGuigan?

Mr. McGuigan: No, just to thank them.

Mr. Chairman: It turned out that, fate being as it is, our session with you is perhaps the longest that we are having with any ministry. Obviously, you have been very, very accommodating and very informative. I hope as these hearings go on that there will be a continuing conversation back and forth between your ministry and the committee, because we are very concerned. I think all of us, perhaps from different perspectives, are all concerned about how this agreement affects agriculture and food and appreciate your indulgence with us.

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Dr. Switzer: Our pleasure, Mr. Chairman, and we would be happy to provide you with whatever information we have as more develops, because I need hardly tell you that this is such a rapidly changing area that new information is coming along almost hour by hour sometimes.

Mr. Chairman: Yes. Thank you.

We have a number of things I wish to raise very briefly. Members of the committee have received a packet this afternoon which will be exhibit 18. First of all, this packet is from the cabinet committee. It is basically précis that were done of the presentations to that committee by the researcher for that committee at the time. It can be of great assistance to you, I think, especially when we are questioning those who come before us who appeared before that committee. Of course, at that time they did not have the full text. I do not know whether that was distributed this afternoon or not, but there is also the final report on the federal standing committee on external affairs and international trade.

Also, by tomorrow morning you will have the Ontario Federation of Agriculture document I was referring to and a letter that I received from Dare Foods in my bailiwick about some of its concerns about the cookies and candy industry, which I think will be helpful.

For tomorrow you have in front of you a revised agenda. Mr. Carrozza has worked this out so that we can be back in our ridings on Friday, but it will involve very diligent work tomorrow and Thursday. We have a very heavy schedule for both days and I will just go over it.

Tomorrow morning at 10, we have Byrne Purchase from the Ministry of Treasury and Economics. At the moment we have him scheduled for a mere one hour. Conceivably, we could back up our starting time, but I would not even want to suggest that and have him here and not have the committee members here. In any event, at the moment it is set for one hour. I am open to discussion on that.

He is followed by, tentatively, the Deputy Minister of Culture and Communications, Mr. Silcox, which is an addendum, incidentally. There are three ministries that I felt we should be hearing something from, that being one of them and Labour and Skills Development being the other two, which we had not initially asked to hear from because, frankly, they had not appeared previously, but I think their concerns are some that we should be looking at.

At two o'clock, the Deputy Minister of Natural Resources, George Tough. At three o'clock, the Ministry of Northern Development with Mr. Vrancart and Mr. Stevenson and at four o'clock the Ministry of Consumer and Commercial Relations. I am somewhat saddened because I think that is an important one that we have to look at, so we will have to try to still remain fresh at that time.

Similarly, on Thursday we have a busy day, with the Ministry of Energy, Mr. Crosbie, at 10 and the Attorney General (Mr. Scott) at 11, although I was told by Mr. Sterling that he may still be in the committee on the Legislative Assembly at that time but hopefully he will be here.

At two o'clock there is the Ministry of Financial Institutions, Mr. Davies, and as you see, that includes the Ontario Securities Commission and Mr. Beck will be here too, I understand, will he not?

Interjection: No.

Mr. Chairman: No, he will not be here. I am sorry. Mr. Davies will answer his questions.

The Ministry of Labour, Mr. Thompson, and the Ministry of Skills Development, Ms. Carr.

Does that meet with your approval? It will mean a number of things. I think we will have to be shorter with our questions. Perhaps caucuses can get together a little bit and make certain there is not any repetition in the questioning. I am not suggesting there was today, I think the questions were all very perceptive and good, but you can understand that if we have only an hour we are not going to be able to be as thorough as we were today.

Mr. Mackenzie: Mr. Chairman, may I raise with you also the question of the issue that I had raised earlier, that is, the areas this agreement may specifically touch on provincial jurisdiction and provincial responsibility? I gather the audit has not yet been made available by the Attorney General's office. I am wondering if this committee should not be looking at some kind of an outside or independent assessment of those areas of the agreement that may very well be under provincial jurisdiction and whether it would not be useful to either initiate such a study or at least have it on the agenda for our next meeting, one of the two.

Mr. Chairman: All right. That is an interesting idea, Mr. Mackenzie. Obviously, Mr. Scott will be addressing that when he speaks to us, but I think Mr. Mackenzie's suggestion is that we, independently of the government, audit that issue.

Mr. Mackenzie: As I recall, it was even one of the suggestions from the Attorney General's ministry.

Mr. Chairman: Yes, it was. I think they had different reasons for asking us to do it, but in any event--

Mr. Mackenzie: At this point, I am not arguing the reasons.

Mr. Chairman: No.

Mr. Mackenzie: I just think that one of the things, if we are to have any impact at all in this committee, that we have to look at is those areas that do specifically come under provincial jurisdiction.

Mr. Chairman: Would you like to have the research office perhaps--

Mr. Mackenzie: Before I move an actual motion, I would not mind having a recommendation come from our researcher. I would be pleased to see that first.

Mr. Chairman: Just as to how it should be done and who is available to do it?

Mr. Mackenzie: Yes.

Mr. Chairman: Perhaps we could have a report back as soon as possible on that. Mr. Neumann, did you want to add something?

Mr. Neumann: You asked the other day if committee members would give thought to areas that do not appear to be covered in testimony of the witnesses. I realize that we are a finance and economic affairs committee, but it seems to me in this whole free trade agreement we tend to focus in on the economic pros and cons and perhaps overlook the overriding, long-range sovereignty issues that might at some point be looked at by this committee since no other committee of the Legislature is looking at this agreement with that in mind. I am wondering about the historical perspective on the role tariffs originally played in building this country and the long-range implications for the future of the country. We might get some people who might provide an historical perspective and give us their thoughts on it.

Mr. Chairman: All right. I think that is an interesting idea. It might well be very subjective, of course.

Mr. Neumann: Many of these presentations are objective.

Mr. Chairman: Of course, they are.

Mr. Neumann: People come in and they give us how they think this agreement is going to affect one thing or another. I want to know how it is going to affect the long-range independence of this country.

Mr. Chairman: You are looking perhaps at an historian and/or a sociologist?

Mr. Neumann: Not so much a sociologist, I would not think.

Mr. Chairman: No. An historian.

Mr. Neumann: An economic historian.

Mr. Chairman: All right. Perhaps we could have research report back to us on that too and with some ideas as to who might be available to do that.

Mr. Neumann: An overall perspective on the north-south geographic and economic pull of this continent and how we built the railway east to west.

Mr. McLellan: That is Donald Creighton's type of thing.

Mr. Chairman: I do not know whether there is a profession called a futurist, but would you want to have that looked at as well; that is, the changes that are occurring in the world that history may not be as applicable to, or would you prefer to be looking at the history?

Mr. Neumann: I will let our researcher ponder about it and perhaps come back with a solution.

Mr. Chairman: All right.

Mr. Neumann: I am thinking of the perspective that perhaps Canada, stretching across the northern half of this continent with a thin band of population is an artificial political entity to some degree when you look at the economics. If we are going to do a continental market in many of these areas, what is the long-range political implication for the country?

Mr. McLellan: There has been a fair amount of work done in that area but certainly not looking at this agreement. I think it is a very real--

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Mr. Mackenzie: We started from the historical perspective as much as anything.

Mr. Chairman: The historical perspective also, though, looking at this agreement. Any other ideas we should be looking into?

There are a couple of other things I would like you to think about. We have, if I am correct, already decided that we wish to travel to Washington. We have done it in a couple of respects, in that the budget was passed so indicating. There was some discussion of it, and I am just not certain whether a motion was passed.

Clerk of the Committee: It was not passed by the Legislature.

Mr. Chairman: The motion was not passed by the Legislature, but I am talking about this committee.

Clerk of the Committee: This is what the committee planned to do, and that later was given to all those people.

Mr. Chairman: The plan was that we would go to Washington. We have had some research done on when an appropriate time would be. You have a document Mr. McLellan prepared regarding the omnibus trade bill. We have also talked to Mrs. Oberstar. It would seem that the week of March 7 through 11 is an appropriate week, bearing in mind the activity of the Congress and our own activities.

Mr. Morin-Strom: Is or is not?

Mr. Chairman: It is an appropriate time. Initially, I had thought it might be too late, but I am getting the impression now it might be right on. Mrs. Oberstar suggests that an arrival Monday night through to Thursday would be appropriate, and that seems to fit our normal timetables. She said that because congressional people tend to work Tuesday to Thursday. You are looking at me strangely, Mr. Haggerty.

Mr. Haggerty: If she is going to run us like she did the last time, we will not even have time for dinner.

Mr. Chairman: We run that way all the time, Mr. Haggerty.

Mr. Haggerty: I know that, but we never even had breakfast in the morning. In the hotel we were staying at, you could--

Mr. Mackenzie: We can resolve that by arriving a couple of hours earlier or leaving Friday morning.

Mr. Chairman: We can certainly arrive early or stay over Friday. We still need approval. We have had our budget passed by the Board of Internal Economy, but we will still need the motion passed by the House, presumably the first week of February. Is it the wish of the committee that we go ahead, retain Mrs. Oberstar and commence--

Mr. Mackenzie: I would so move.

Mr. Chairman: All right. One other thing. It has come to my attention as a lawyer that the American Bar Association is having a conference on the Canada-United States free trade agreement and its implications. That is a two-day conference on Thursday and Friday, January 28 and 29. As a result of my discussing it with Mrs. Oberstar, she sent a fairly detailed agenda. It looks as if it would be the sort of event that would be interesting for this committee to have some people attend, perhaps as flies on the wall. It is basically American trade lawyers who are now looking at this document and assessing it and it might be very valuable.

Mr. Mackenzie: None of us are going to understand them.

Mr. Pelissero: You are a lawyer. Why do we not send you?

Mr. Neumann: I would move that we send the chairman down.

Mr. Pelissero: Agreed.

Mr. Neumann: Would you go for the whole thing or just for one day?

Mr. Chairman: It is on Thursday, January 28, and it goes into Friday afternoon. It is just two days.

Mr. Mackenzie: If there is a motion to send anybody, Mr. Chairman, I think you should be allowing for one member from each party.

Mr. Chairman: Mr. Carrozza is reminding me that the committee has not asked for authority to travel during this interim. That is not a problem for March, I do not suppose, because that authority would be granted by the Legislature in the first week of February. If we go this time, it would be on spec. If that authority is not granted retroactively, the individual member presumably is going to have to pay his own way.

Mr. McCague: That is an excellent reason for sending one from each party.

Mr. Neumann: I will change my motion--

Mr. Mackenzie: I am not sure it is absolutely essential that we do attend it, although it would be interesting. If you do, the only point I am making is it should be allowed for a member from each party to go.

Mr. Chairman: Mr. McCague had a very good point. Mr. Neumann, did you want to change your motion?

Mr. Neumann: I will change my motion, then, in accordance with the practice of the committee.

Mr. Chairman: Mr. Neumann moves that three people be authorized to go, one from each party, and that the chairman be one of the three.

Any further discussion? All in favour? Opposed?

Motion agreed to.

The committee adjourned at 4:56 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

WEDNESDAY, JANUARY 20, 1988

Morning Sitting



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Beer, Charles (York North L) for Mr. J. B. Nixon

Sterling, Norman W. (Carleton PC) for Mr. Villeneuve

Also taking part:

Allen, Richard (Hamilton West NDP)

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Treasury and Economics:

Purchase, Dr. Bryne B., Assistant Deputy Minister and Chief Economist, Office
of Economic Policy

Hoicka, John, Senior Policy Adviser, Sectoral and Regional Policy Branch

From the Ministry of Culture and Communications:

Silcox, David, Deputy Minister

Rodgers, Richard, Senior Policy Adviser, Cultural Industries and Agencies
Branch

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, January 20, 1988

The committee met at 10:05 a.m. in room 151.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: This morning we are very happy to have with us officials from the Ministry of Treasury and Economics. I apologize for the presumption of the committee that we can deal with all of your interests and concerns on this free trade arrangement in one hour. I do not think that is necessarily a realistic presumption, but we are appreciative of your being here. I expect we will be asking you back another time. I know you are very familiar with this committee both on this issue and prebudget activities. You have always been very co-operative and we appreciate it.

With us is Dr. Bryne Purchase, assistant deputy minister and chief economist. Perhaps, Dr. Purchase, you could introduce those who are with you and if you have any opening statement to make, go ahead.

Dr. Purchase: Thank you. On my extreme left is John Hoicka, who is a senior policy adviser in the sectional and regional policy branch; Qaid Silk, who is an assistant director in charge of our macroeconomic policy unit; and on my right is Dr. Pat Deutscher, who is also a senior policy adviser in the macroeconomic policy unit.

I do not have an opening statement that I intend to read. Presumably, everyone on the committee has read what we have written in the context of our medium-term outlook on the free trade deal. I am referring now to the Economic Outlook and Fiscal Review for 1987, pages 28 and 29, where we do address the question of the free trade agreement between Canada and the United States.

In that section, we attempted to look just at the economic impact of tariff reductions. We did not, as the section indicates, in any way attempt to make an overall assessment of the economic impact or the economic and political impact of the free trade agreement on Canada or on Ontario.

Mr. Chairman: If I may interrupt. I might just mention to the members of the committee that pages 28 and 29 of the economic outlook are in front of you.

Dr. Purchase: I believe those pages more or less speak for themselves, so I will not say too much more about them. I did have a series of questions I asked myself when I knew I would be appearing before this committee. I asked myself as a professional economist the kinds of things I might be able to give you in the way of my professional views. There are other professional views as well. Certainly, I and my colleagues have arrived at more or less a consensus over two years of studying work that not only the government of Ontario has done, but that other governments and private individuals have done.

I do not believe now, as we said in our document, that an overall economic picture as one single number or set of numbers is probably possible,

given the state of the art in economics. None the less, if I ask the question, "Are there economic gains from reducing tariffs and nontariff barriers?" I can say that the work we have looked at and certainly the work we have done is unequivocal in that regard. It says yes, there are gains.

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If we move to the next question and ask, "Are the gains large?" or "Will we become as wealthy as Americans?" I think there also the answer is unequivocal; that is no, they are not very large and no, we will not become as wealthy as Americans as a result of the removal of tariff and nontariff barriers between Canada and the United States.

The studies we have looked at, the Department of Finance studies, the studies done by university professors, all suggest we are looking at a very modest increase in real income. They differ significantly in some respects in the assumptions they make, but they all come in with quite a small number, in my view.

Our own efforts at modelling the impact of tariff reduction also show quite small positive gains; one might almost say extremely small positive gains. In that modelling, however--the exchange rate figures very importantly in this--it is necessary to allow the exchange rate to adjust to get a positive impact.

To the question, "Will anyone lose his job?" I think, unequivocally again, the answer is, "Yes, there will be job losses." We have not done our own analysis as to what number of people that might be. Our models simply do not give us that kind of answer. But if you look at the Department of Finance studies, you see that in their short-run economic impact analysis, they are looking at something like--and this is Canada-wide--25,000 job changes per year.

Over the four years, that adds up to something like 100,000 jobs that they are looking at that conceivably might be lost, although there is a euphemism here between "lost" and "changed." If you moved to a different job, did you move because you lost your previous one or did you move because there was a better one available to you? None the less, in their analysis there are 100,000 people who move.

On job gains, their short-run analysis suggests 120,000 over five years. I believe the jobs lost and the jobs gained, in a sense, balance out. There is a net job gain of 120,000, do not get me wrong, but there is some significant job loss. In relation to the total amount of job changes in the Canadian economy, one can argue that those results did not show a large change.

To some degree, as you look at all these models, what you find is that if you found in your analysis that you were getting large gains in the long run when everything settles out, it is probably because in the short run you were getting very significant job losses. In other words, it is in part true that to get large gains, you need fairly large, short-run, negative impact, because people have to be losing their jobs in low productivity industries and moving to higher productivity industries to get big gains.

My own view is that there are not large gains and this is not a large economic impact. Indeed, my assessment would be that in macroeconomic terms, the exchange rate change that is possible has a much more significant impact on the economy. In terms of the particular industries that are impacted by

these changes, positive or negative, then clearly there may well be some differences there and some significant impacts.

If I ask myself the question, "Will incomes be more regionally balanced across Canada?" I think all the analysis again says, "No, they will not." All the work I have looked at, as well as the work done by the Department of Finance, suggests it will not lead, in fact, to a more regionally balanced income distribution across Canada.

If we were to ask whether these gains were achievable without this agreement, I think the answer to that is yes, in fact, that through the General Agreement on Tariffs and Trade it was possible to remove tariff and nontariff barriers to trade.

On the question of the overall assessment of the negotiation, I do not think that as a professional economist I can make an overall assessment. I can make some attempt at looking at the economic implications of the negotiation in total. Here what we have to look at--I have talked to this committee before about free trade; we talked a great deal, and I know you have heard other experts on this subject--is that what we set out to achieve in these negotiations was something called secure access. That was dominant in everyone's mind. While people talk about tariff and nontariff barriers, what we really had in mind was that, in fact, we would get some significant reduction of the political uncertainty facing potential investors in Canada.

That is, if you were to invest in Canada and you had in mind exporting a significant proportion of your production to the US, you were confronted with a political risk, if you like, or, as some people like to say, a border risk, by virtue of the fact that your production facility was located in a foreign country. Now, to some degree you have to acknowledge that it is not possible totally to reduce that risk, short of union, and that there is always and will always be some border risk.

But clearly we were in a situation that because of our perception of what was happening in the Congress and because of the forecasts and some evidence of increased protectionism in the Congress, there was a clear imperative to attempt to diminish that risk to us in some way, especially as we looked at the possibility that North America may well be the recipient of a major inflow of foreign direct investment, particularly from Japan, and perhaps also a renewed interest from Europe in directly investing in North America. The reasons are, of course, the enormous exchange rate appreciation of the Japanese and European currencies vis-à-vis North American currencies, which meant that those countries and the companies in those countries have a greater incentive now to produce in North America than they did before.

At issue here was who was going to be able to attract a large share of this investment, and to the extent that there was a political risk of putting the plant in Canada as opposed to the United States, clearly that put us at somewhat of a disadvantage. This turned out to be an extraordinarily complicated concept in some respects. Although it seems simple enough, it is quite complicated.

There was also a greater Canadian interest in this idea than a US interest. The reason, of course, is that we had much more at risk. I think something like 20 per cent of our national income in direct terms is generated from exports to the United States, whereas less than two per cent, probably closer to about 1.2 or one and a half per cent, of US income is generated by exports to Canada. So there was a disproportionate Canadian interest in diminishing political risk.

What diminishing political risk meant, I believe, was that we had to get some moderation in US contingent protection laws and that we also had to get some kind of special treatment, preferably exemption from any new law. I think on balance, our lawyers tell us, the lawyers to the government--the advice the government is getting from the legal community that has been engaged by the Ministry of Industry, Trade and Technology--that we did not achieve that. I take it that as they are professionals in that business, they understand the law and I believe you will have the Ministry of the Attorney General people here as well.

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Given that, I think then you might argue that we did not achieve what we set out to achieve, that there are some economic costs to protectionism in the United States. We knew that. Everyone knows that and it is widely agreed to.

I think that is probably all I need to say.

Mr. Chairman: Thank you very much. I appreciate the overview you have given us. While you were talking about the security of access, it reminded me that it was your appearance before this committee that first introduced me to the word "countervail." I know a lot about it now.

Mr. Mackenzie has a question.

Mr. Mackenzie: You talked about a slight increase in real income. Is that related to lower prices alone?

Dr. Purchase: In part, yes, but it is also in this model related to some gains in income and gains in job creation. There is some job creation that takes place in this.

We have assumed that, if the tariff is removed, effectively the price falls to that. The good side of that is that you get some positive impact on the consumers, whether those be other businesses or whether they be the ultimate consumers. That is the positive side. The negative side is that, of course, it has some adverse impact on the Canadian companies that now have to reduce their prices, which may result in several different responses. They can increase their productivity sufficiently so that they can reduce prices with no problem or they can reduce their profits or they can lay off workers.

If you do not get the price reduction, then you do not get the employment effect. In other words, if the people exporting into the Canadian market do not reduce their prices, then there is no adverse economic impact on domestic producers. So where it balances out in each industry, I honestly do not know. I do not think anyone knows, frankly. But in the models we have looked at--we use the focus prism model at the University of Toronto--the gain comes in part from getting a price reduction.

Mr. Mackenzie: You have touched on what I am concerned with. I assumed that it was the fact that, without the tariffs and the lower costs for some products coming in from the United States, this was going to be the income gain in terms of Canadians. What I was really concerned with was whether there is any consideration in wages. Just as we have seen in some of the northeastern United States with the move of industry to the Sunbelt area, is this going to result in lower wages, maybe a cheaper price for a dress that comes across the border, but lower wages for our workers?

Dr. Purchase: As I say, part of the gain here is because you get, on

net, more jobs as a result of this. But there is no doubt in my mind that in some industries there will be added pressure on labour or on workers in those industries to moderate their wage gains and perhaps conceivably take--

Mr. Mackenzie: Do you have any studies at all that tell us how much we may have to sacrifice in terms of wages for these additional jobs that you are talking about, if indeed the additional jobs are there?

Dr. Purchase: No, we do not. Again, I do not know that anyone does, quite frankly, because each industry will be different. Even the competitive response in each industry will simply be different. I expect virtually every kind of behaviour that you or I can conceivably imagine.

In some respects, it is a huge change and will produce all sorts of behaviour. In other respects--my job really was not to look at all those detailed things. We were trying to look at the total impact on the Ontario economy. We were trying to add it all up, if you like, and ask, "What is the net impact?" My sense is that it is not large in total terms, but it is large, obviously, for each individual who is adversely impacted. I do not mean to sound cavalier in respect of the impacts.

Mr. Mackenzie: In terms of your ministry and Financial Institutions, obviously the difference in the dollar is a major factor in all of this. Are there any studies at all which indicate what affect this agreement, if it moves towards the level playing field or the open border, is going to have on the difference in the dollar? Is it not likely to have some effect on the difference in the dollar, which could make a substantial difference?

Dr. Purchase: Yes. In our analysis, what happened is that the dollar depreciated in response to the tariff cuts. If it did not depreciate, then we probably would not have got the results we got. In a sense, we could have made it do anything we wanted it to.

My sense of it is that, obviously, the changes in the value of the dollar that may result from this agreement have a much more profound effect because they cover all imports and all exports. In other words, if the dollar depreciates, it makes all exports slightly cheaper and all imports slightly more expensive. So it is a bigger effect when we are talking about tariff reductions, especially if you are talking about them over a 10-year time frame, that apply to only some goods and--

Mr. Mackenzie: Really, what I am getting at is that in bringing together the two economies, which is part and parcel of this whole agreement, are we not likely to see a move to an equalization rather than a difference in the dollar? Is there any study, is there anything on that at all? We say that is going to add a whole new ball game.

Dr. Purchase: We published a study at the very beginning of these negotiations. I could refer now to a background study, entitled Canada-US Free Trade: The Exchange Rate and Employment Policy, which was published by the Ministry of Treasury and Economics in May 1986. It did deal with this issue of whether the exchange rate was going to be a part of these negotiations and it noted the very, very significant impacts of exchange rate changes on the economy.

For example, in the analysis that we did here, a five-cent change in the exchange rate, if it was engineered by changes in interest rates between the two countries, would lead to a job loss of 150,000 in Canada. That would be

larger than the impact the Department of Finance is talking about in the short term.

Mr. Mackenzie: But the actual rotation in terms of exchange rate was not to be part of it.

Dr. Purchase: No.

Mr. Mackenzie: What I am getting at is, is this a viable possibility and what do we know about it or what have we looked at in that way?

Dr. Purchase: I believe that the exchange rate is a very, very important mechanism for adjustment for Canada to whatever happens in the future with respect to the United States, that the flexibility of the exchange rate has to be protected. Whether this agreement will lead to some further negotiation on exchange rates or whether they are currently negotiating about exchange rates in the G-7, of which we are part--and you have to remember that the trade people are different from the monetary people; those are different bureaucracies there--we just do not know. I am not in a position to know about that.

Mr. Mackenzie: That is what I was after. Is there any evidence it might have that effect? Never mind whether we negotiate it at all, the more we bring the two economies together, the less likelihood there is to be such a difference in our dollar.

Dr. Purchase: I think exchange rates are, and have been seen to be in many countries, a highly political price. It is very difficult to keep the exchange rate out of the political arena. It is not inconceivable that--

Mr. Mackenzie: It may be even more difficult in terms of the kind of clout we will have.

Dr. Purchase: In my view, it is not inconceivable that it would be, but I think there would be many people in Ottawa, and many people generally, who would say, "That's not something we need worry about, that's not a matter of negotiation." I am not in a position really to say.

Mr. Mackenzie: That is exactly why I do worry.

My final question--and I will quit there, although there are other things I would like to raise--is on the branch plant situation. Some of us believe that at least a factor in what is happening in places like Firestone in my own town and so on is connected in some small way to what may be developing in terms of the trade agreement. Regardless of that, we have had ample evidence before this committee. I will use one example only, the vice-president of the trucking company who said he had talked to some 500 branch plant managers in this province.

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I think it was the Canadian Pacific trucking vice-president who indicated that there really was not a hell of a lot of purpose, if we achieved the total agreement, in keeping those branch plant operations going in this province. Whether he is anywhere near right or wrong in the kind of figures that he presented to this committee a year or so ago, do you have any studies that show what effect this agreement is likely to have in the branch plant

type of economy we have in Ontario, given the productive capacity--in many cases in the head office--and given the fact that those branch plants here now in many cases are not allowed to export or do a hell of a lot of research and development?

Do we have any studies? I would have imagined it would affect the tax base. Certainly the Firestone deal alone in Hamilton is going to have an effect on taxes. Do you have studies that indicate the potential problems of the branch plant economy?

Dr. Purchase: No, we did not do any studies directed specifically at how branch plants might respond to the free trade agreement. Again, my professional opinion--and this is uninformed by having done new work, but I have read the work of many other people on this subject--is that we will probably see virtually, again, every type of behaviour. I suspect there will be no one branch-plant response here. Each will look at this in a slightly different way.

Perhaps within the same industry, where two branch plants are competing, they may well see different opportunities and responses because it will depend on the unique circumstances of their corporate structure in North America, of their organization and of their strengths and their weaknesses in each of these markets. My own view of this is that it is probably not possible to give one single answer to that, but I would not be surprised if someone does shut down because of the agreement. On the other hand, I would not be surprised if someone expands because of this agreement.

Mr. Chairman: Thank goodness for that answer, because I have got an American tire industry in my riding that is operating. Just very briefly, as a supplementary to the question on the exchange rate, do you put any credence in a theory that I have heard that the exchange rates of our two countries tend to pull closer together in times of economic adversity? It would compound, of course, any problems.

Dr. Purchase: First of all, as you export more to the United States, you can expect the exchange rate to appreciate. In a sense, it is the reward. After all, it does, in terms of our ability to buy goods and services in the world, actually make us better off, although it has an adverse economic impact. I think it is a useful adjustment tool, which is why I think a flexible exchange rate is important here. But in terms of what would bring the Canadian exchange rate closer to the US exchange rate, the Canadian dollar is still really widely regarded in the world as a commodity currency. Basically, people's interest in the dollar primarily reflects their views of commodity prices.

If there were a commodity price boom, for example, or a substantial increase in exports of resources, then that would put pressure on the Canadian dollar and probably close the gap between US and Canadian rates. There would be adverse regional impacts there from that kind of move. Obviously, the affect on Ontario would be greater.

Mr. Ferraro: I want to ask a supplementary to the questions on the exchange rate. As the head economist for Ontario you are obviously more of an expert at it than anybody in this room. How real a possibility is a unilateral devaluation of the American dollar and/or the G-7 propping it up?

Dr. Purchase: First of all, the American dollar floats basically against all currencies, although, increasingly, obviously the G-7 is an attempt in its own right to manage but not fix. There is no attempt to return to fixed exchange rates there. But there is an interest in making sure that exchange rates do not change too wildly or widely.

in the tariff change between Canada and the United States, we are talking about what is in price terms a fairly modest number. It is important to some industries, but overall a fairly modest price range. The yen appreciated against the dollar by about 80 per cent in a matter of less than two years. You can imagine the economic impact that must have. These are huge changes that can occur in a very short period of time, and we are talking, as I say, on tariffs over 10 years. Exchange rates figure very large in this thing.

To answer the question, are we driven inevitably to talk more about exchange rates and to try to co-ordinate exchange rate policy more, it seems to me that it is possible. In the total scheme of things, exchange rates are highly political prices and therefore inevitably they will be the subject of discussion between governments.

Initially, in the early 1980s, there was a huge appreciation of the US dollar and it was accountable for much of the protectionism that we saw in the United States, because it wiped out a lot of manufacturing jobs in places that are not very far from Ontario. In particular, it wiped out manufacturing jobs in Michigan, Ohio and Pennsylvania. The result of that was obviously political pressure and the growing protectionism or sentiment towards protectionism in the US Congress.

The Reagan administration has changed its mind about whether a highly valued, some say overvalued dollar, was a good thing and then it began to talk about maybe there should be an exchange depreciation. Jim Baker engineered the September 1985 agreement, I believe, in which they really began to move towards a US dollar depreciation against Europe and Japan, and it has since continued.

There are many people who will say that would have happened anyway. It did not really matter whether the governments intervened or not or talked about it, simply because the United States trade imbalance was becoming so great that people would have eventually moved out of US dollars and into foreign currency, so there would have been a depreciation of the currency. I do not know. All I know is that clearly it became an important political issue to the government of the United States to negotiate or talk about currency rates with the Japanese and Europeans, just as it was--and in fact still is--important for them to talk about currency exchange rates with the Taiwanese, the Koreans and some of the other southeast Asian countries that have important trade surpluses with the United States.

Mr. Ferraro: Historically, the United States has never devalued unilaterally its dollar. Is that correct?

Dr. Purchase: Yes, there was a unilateral devaluation of the US dollar by President Nixon. When the United States went off the gold standard, I believe, it went off a fixed exchange rate. They dropped the relationship of the US dollar with gold and they depreciated the currency across the board. They also put pressure at that time on Canada, according to Ambassador Reisman in an article he wrote some years ago, that they did talk to us about the exchange rate.

Mr. Ferraro: That is a real possibility to some extent, even if it is a minor one in the scope of things. Not being an economist, although the US trade has improved somewhat in the last quarter, if they cannot improve it substantially by increased trade or budget reductions and/or tax increases, which there is some resistance to--and let us assume they do not increase their trade balance substantially--it appears that budget cuts and/or tax increases are the only alternatives before a currency devaluation. Would that have just as serious an effect vis-à-vis our trading relationship with the United States?

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Dr. Purchase: The budget cut?

Mr. Ferraro: The budget cuts and/or tax increases, the combination.

Dr. Purchase: The United States is a very important market for Ontario and for Canada. To the extent that the growth in that market was slowed down by--

Mr. Ferraro: I am referring more to the tax increases.

Dr. Purchase: For example, in 1989, with a new president, if there is a decision to raise taxes or somehow significantly reduce the US budget deficit, then obviously that will negatively impact the economy of Ontario, but not related to this agreement per se. I do not think there is anything in this agreement that has anything to do with that. But it would slow down the growth of that market.

I think we can expect a slowdown in the United States economy. As we have said in our medium-term document, we do think the US economy will be slowing down. They have had a period of very rapid growth and they have a huge consumer expansion there. To provide for that growth, a lot of it has been imported.

They now also have acquired a huge international debt, which will be a problem for their currency in the future even if they turn around their trade balance. In terms of their service account, their total account, because they have to pay interest, they may well look more like the Canadian economy, where you have a large deficit in terms of paying interest and dividend payments but you have a surplus on your trading goods. Their structure, their balance of payments, may look more like ours in the future. In fact, they are headed in that direction. I think they will get a trade turnaround. You can see it already.

Mr. Ferraro: The last question I have is more of a simplistic one. In your forecast you talk about marginally lower prices for imported goods, "and should lower consumer prices and modestly increase real incomes." I do not know the answer to this, but could you elaborate a little bit on that, and also refer to, because I have had it mentioned to me by friends and so forth, "It is going to be great to go over to Buffalo and not worry about having to stay there for two days or lying to the border guard." Also, do the Americans have a restriction when they shop in Canada? I do not know the answer to that. There are a lot of consumers out there who are not caught up with the free trade deal.

Dr. Purchase: First of all, you have to go the full 10 years before all tariffs are removed.

Mr. Ferraro: And the sales tax still remains.

Dr. Purchase: Yes.

People think in terms of lower consumer prices. The benefits are not really necessarily all to the ultimate consumer. The benefits, if there are any, will accrue also to where we have intermediate bids which are protected. It is other industries in Canada that will also benefit, so we are not going to see this impact just on the consumer price index, if you like.

Right now, people are pricing to the tariff in Canada. In other words, if you have a tariff protection of, let us say, 10 per cent, you have a price that meets the import price and the imports are paying the 10 per cent, so you are pricing up to the import. If you remove that, the assumption is that the import prices will go down 10 per cent and you will be forced to lower your prices 10 per cent.

That is a fairly simple model and it is easy to understand. It is probably not that descriptive of what might actually happen. We simply do not know. In some industries, the importer may stick with the price, because he is earning 10 per cent more than he would--as long as the domestic people do not change their prices, importers may not choose to change their prices. They may just choose to take an extra 10 per cent on top.

Mr. Ferraro: Really, 80 per cent of the commodities are tariff-free now, anyway.

Dr. Purchase: Yes, but if they do, there is no adverse economic impact either, on the other side.

The simple response, as I have tried to say, is not clear. The models do assume a simple response. The model that we use says that if you lower tariffs, the prices go down; whatever the consumer, whether it be another industry or whether it be a final consumer, like a household, that consumer will see some reduction of the prices.

There is that gain. It is a very modest gain. I do not want to overplay it. This is a very difficult thing to do. We are saying that there are some consumer gains, but I must reinforce that I believe they are quite modest numbers.

Mr. Ferraro: The federal sales tax would still apply, I understand. Can you answer this question for me, though? Does this affect in any way, shape or form the amount of expenditures Canadians can make in the United States and, conversely, are there any restrictions on American consumers in Canada?

Dr. Purchase: I recall some discussion of this but, unfortunately, I cannot recall the details. I know the question was asked of the federal minister about whether consumers would be able to go across to Buffalo or something like that and bring back goods. I believe the answer is no, they cannot.

Mr. Ferraro: So those restrictions, as far as you understand, would still apply?

Dr. Purchase: Eventually, I do not think they would apply. At the end of the 10-year period, I do not think they would apply.

Mr. Ferraro: At the end of 10 years, then, it is conceivable that we could go over and blow our brains out if we wanted to in the American market and drive back. Are there restrictions on Americans spending money in Canada at present?

Mr. Hoicka: Officially, yes, but most things cost more in Canada. As a practical matter, you do not get bothered at the border.

Mr. Ferraro: Are you saying that our border guards are closing both eyes?

Mr. Hoicka: I am talking about the American border guards.

Mr. Ferraro: They are closing their eyes?

Mr. Hoicka: Yes. They do not worry about it. Officially, yes, they do have import standards which are similar to the import standards we have. They are somewhat looser, but as a practical matter--

Mr. Ferraro: It is not as big a concern as it is for our guards?

Mr. Hoicka: It is not as big a concern because very few people try to smuggle things from Canada into the US. The US has lower prices on almost all products.

Dr. Purchase: On that subject, you will still have to go through customs. If you go, for example, to the United States and buy something made in Europe, because you find they have a lower tariff rate on that item than we have in Canada and you can get it more cheaply there, you will still have to pay customs duty because we have not reduced our tariffs with respect to foreign countries.

It will still be almost as complicated as it is now in terms of crossing the border, because neither country is interested in allowing the other to become a conduit by which goods can enter without a tariff or at a lower tariff than they would if they entered directly into that country.

Mr. Ferraro: This is definitely my last question. If you are saying that at the end of 10 years there will no restrictions on Canadians going to the United States and purchasing commodities, how big an effect will that have on the Ontario ability to raise taxes and/or retain jobs? Or is it just that some of the very close friends I have are Buffaloes or something?

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Dr. Purchase: What you have pointed out is that it does have some constraining effect. Just how large it is I do not know. But even today, for example, if we are considering a tax change as related to a consumer good, then we do have to look at what is done, for example, in Quebec, what is done in Manitoba and what is done in the United States in the various states there, on the grounds that we know that if we add to the price in the province, for those living on the border, if you can get it a little bit cheaper and it is legal to do so, there is a natural inclination, obviously, to look for it. So it does have a constraining effect, but I do not know how much it would be.

Mr. Ferraro: Do we know how much Ontario money is spent in the United States?

Mr. Chairman: You promised, Mr. Ferraro.

Mr. Ferraro: I am sorry; I apologize.

Mr. Chairman: We have about 12 minutes left. I am going to jump to Mr. McCague so that each party has a clear shot, but I would ask everybody to be very crisp from here on in. Then I will have Mr. Beer, Mr. Morin-Strom and Mr. Neumann, if there is time.

Mr. McCague: The two pages you dedicated to free trade in the Economic Outlook and Fiscal Review, I guess I would suggest to you, do not particularly help anybody. They do give a few passing opinions on the state of that nation. When you asked yourself the questions at the start of your presentation and gave the answers, one would take from that that you were in favour of the free trade deal. Is that true?

Dr. Purchase: Do you mean the total-- That is a very complicated question, in the sense that I am here to give evidence as a professional economist on those aspects that I think I can render or that can be answered in a quantitative sense.

As a private citizen, what I feel about this would be different, because there are many other things in this deal. In other words, I assume all Canadians would take into account the political implications of the deal and the sovereignty. There are a whole lot of things. You asked me the question, am I in favour of this deal? I think I tried to answer from an economist's point of view. I believe there are gains to the reduction of barriers to trade, and that is why I think it is a totally consistent position to be in favour of GATT.

I mean, if you think it is terrible to reduce barriers to trade, then you cannot be in favour. I do not see how you can favour GATT, or talk about GATT, or talk about reducing interprovincial barriers to trade. If we think that is a good thing, we think it is a good thing because it is a good thing for Canadians. So in that sense, I believe from the studies I have done and read of others that there are gains from the reduction of barriers.

On the question of whether we gained in the overall negotiation, again that goes back to what I said. I am saying, what did we set out to achieve? That, I think, does relate to this issue of security of access and whether we achieved it or whether we did not and what the implications of that are. So my own sense is that I would say that we probably did not achieve much more in the way of security of access than we had before.

I do not think people believe this is the final word, and neither does the government of Canada, because it negotiated an agreement to continue to negotiate on that issue, so I just do not believe that anyone thinks this is the final word on this subject. There are the other elements which I have mentioned here: the question, did we give up any bargaining chips that we might have used in the future?

So the answer to the question, sir, is that it is really a question that passes in some degree beyond the economics to the question of, in a negotiation, in a negotiation that will not end now and never would have, no matter how this came, we are going to negotiate with the United States of America from now until doomsday.

Mr. McCague: Doomsday. Just to ask the question probably a little more clearly, though, as the province's chief economist, looking at the agreement within your mandate, I take from what you said earlier today that there are, at the worst, modest gains in this agreement.

Dr. Purchase: Again, I do not think I can offer an overall assessment.

Mr. McCague: No. Within your mandate.

Dr. Purchase: Yes. If I looked at the removal of tariffs, which we did, and at the removal of nontariff barriers, again I think there are some economic gains. I do not believe anyone can assess this agreement in those terms, however, if you want my honest opinion.

Mr. McCague: Oh, yes. In the sea of negatives, it is nice to find one positive.

Dr. Purchase: As I say, I have seen very few studies that--

Mr. Ferraro: You should become a Liberal then.

Mr. McCague: It is you who has the sea of negatives.

Mr. Beer: Just to expand a bit on that point, however, it seems to me that you are identifying in your comments that you really cannot look at the question of the tariffs and where that level ultimately rests in total isolation. There are a number of other factors, exchange rates being a critical one. This morning I think I heard reference to Doug Peters of the Toronto-Dominion Bank who was saying that the question about consumer prices was, at best, very marginal, and presumably there are other factors that would impinge upon that.

Would it be fair to say--and I suppose we are all in favour of reducing barriers and reducing tariffs--that one really cannot make a judgement about this deal only on those terms or only on that specific issue? As an economist, one cannot do that because there are these other things you mentioned, behavioural patterns and some unknowns. Is that fair?

Dr. Purchase: I think that is fair. We did not in any way attempt to do that.

A large part of this debate, I believe, and it may be the largest part of this debate, really relates to: Did we win a negotiation? Did we come out ahead? There are so many factors that have to be taken into account there, some of them noneconomic but also questions related to: Did the government of Canada constrain its sovereignty in ways that are more important to it than those ways are to the government of the United States? Those also have to be taken into account.

I cannot give expert testimony on all those issues. I think it would be presumptuous. I certainly have my own opinion, but that opinion does not really matter to this committee.

Mr. Beer: Thank you. I will just ask one question. I suppose it specifically relates to the question of the regional equality aspect or, at least, some of the statements that have been made about the impact that this deal will have on regional equality as it pertains to provinces. Also, I would be interested, in terms of within Ontario, in whether your models have looked at the impact, for example, on northern Ontario as well as what it might mean in Alberta and Saskatchewan? Can one make a judgement on whether there is no impact, some impact or whatever?

Dr. Purchase: In the work we did, we have not looked at the regional

impact in Ontario. I believe the Ministry of Industry, Trade and Technology has done some work that, to some degree, addresses that issue.

Mr. Beer: You mentioned in your opening remarks that you did not think it would do much in terms of the different provinces. Would it be your sense that it would not necessarily affect the regions within the province in any particular way, or are there things about this deal as they relate to different parts of the province--I am thinking specifically of northern Ontario--that might be more negative?

Dr. Purchase: I really do not want to rush in and make a comment there before I see more material.

Mr. Beer: Fair enough.

Dr. Purchase: I cannot answer that question.

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Mr. Morin-Strom: I would like to ask about your exchange rate assumptions. You have stated that the impact of the deal as a whole from an economic sense seems to be marginally positive. You did state that the exchange rate assumption is by far the biggest factor on the results of your model. In fact, what assumption is in your model on the exchange rate? How big was the impact of that? What might have happened if you had a different exchange rate assumption?

Dr. Purchase: If you believe there is something about this agreement that would cause the exchange rate to appreciate in the short run, then the results probably could turn negative. In the model we had, we allowed the exchange rate to depreciate and the results were positive. It was a modest depreciation. I think it was in the neighbourhood of three cents.

Mr. Morin-Strom: In the short run, it was a depreciation, though.

Dr. Purchase: Yes.

Mr. Morin-Strom: How much?

Dr. Purchase: About three cents; three and a half cents, I think.

Mr. Morin-Strom: Over what time frame?

Dr. Purchase: That is 10 years. The numbers we are talking about are very small and very sensitive to this kind of change. We also did not allow any fiscal stimulus because when you reduce the tariff, obviously if you do not have the government of Canada getting the money back that it used to get from the tariff, then you have a built-in fiscal stimulus. We took that out. In other words, we said we have to look just at the effect of these tariff reductions and we cannot also have built in a fiscal stimulus because the government of Canada gives a tax cut to everybody. We took that out and, as I say, the effects were quite marginal.

There is another set of assumptions, and this is important I think, on the question of productivity. Most of the other macroeconomic modelling efforts will then go back and say, "There will be productivity increases as a result of this." We did not build back in productivity increases, mainly because while I think in principle there could be productivity increases, you

really get lost over how big they would be. Frankly, I do not believe there are scientific answers to that question. It is very much of a guesstimate. My own sense is that 10 years from now we are going to wake up and ask ourselves, "Why is the productivity gap between Canada and the United States still what it was?"

Certainly, if you look at the history of tariff reduction in the Kennedy round and the Tokyo round, we have had a lot of tariff reduction, more than we are contemplating, and we have had a lot of rationalization of industry, but we still have the same productivity gap we had before. In other words, my sense of it is that either we are not looking at the right thing when we are measuring productivity between the two countries or what we are looking at is not what we think it is, but I do not believe tariffs are going to have much effect one way or another on that issue. We get more modest results than other people would get if--

Mr. Morin-Strom: On the exchange rate, the conclusion was that assuming a three to three and a half cent depreciation over 10 years, there was a modest economic benefit. If you had assumed it was the reverse and it had appreciated by three or three and a half cents, would the conclusion have been the reverse?

Dr. Purchase: I think the conclusion would have been--

Mr. Morin-Strom: Of your model.

Dr. Purchase: Sure, the conclusion could have been pushed in the other direction, from that particular stimulus--

Mr. Morin-Strom: That assumption may have completely determined whether there is a modest gain or a modest loss. That is how critical that assumption is.

Dr. Purchase: It is an important assumption but it is not the only difference. For example, Data Resources recently did a study, using a macroeconomic model, in which it came out with positive results and it had the exchange rate appreciating in the short run. Although they get short-run negative impacts, they get long-run positive impacts.

Mr. Morin-Strom: In other words, totally different models will give totally different results. Your particular one would have showed negative results if it appreciated.

Dr. Purchase: What I would say is the consensus of professional opinion on this subject is that there are some modest positive gains. All the modelling exercises aside, all the assumptions aside, when you reduce these tariff barriers and nontariff barriers to trade, there are some modest positive gains. The way in which you arrive at them is various and different, but I think that in virtually all the work I have seen--not all, but most of it--the predominant opinion is that the reduction of barriers to trade has a beneficial effect.

Mr. Chairman: I move to Mr. Neumann. Can you ask one comprehensive question with no follow-ups?

Mr. Neumann: I have one question and it just follows nicely from Mr. Morin-Strom's line of questioning. When Canada had a dollar at par or even

above par, one of the contributing factors was a large influx of foreign investment in terms of balance of payments rather than balance of trade. It can be influenced by dollars flowing across the border with regard to investment. Also, the sale of Canadian resources provides a revenue which contributes to a positive balance of trade.

When you take into consideration that this agreement opens up Canadian resources more fully to the American market and, secondarily, removes restrictions to foreign takeovers, in estimating that there would be a decline in the value of the Canadian dollar, did you take into consideration that we might indeed head into a positive balance of payments resulting from foreign investment and larger sales of Canadian energy to the American market, thus resulting in the Canadian dollar moving closer to par?

Dr. Purchase: No, we did not. If you thought that was going to be an effect of this agreement, then there would have been job loss.

Mr. Neumann: Considering that the United States pressed very hard for those two things, do you not think that is likely to be the result? They want greater access to our energy and they want the ability to invest more. Second, if that is the result, would that not have a negative effect on Ontario manufacturing, if the Canadian dollar moved closer to par?

Dr. Purchase: If as a result of this agreement, in the short run, the dollar moves up, then it would have a negative effect. The long-run implications are different, though. In the long run, you could still argue that Canadians may well be better off with a higher-value dollar because there are real income gains. That means you can buy more from abroad. The importance of the dollar is really a short-run adjustment factor. It allows you to get by short-run competitiveness problems. In the long run, the fact of the matter is that as long as we are fully competitive, it is better to have a much higher-value dollar than a low-value dollar. Obviously, it makes you wealthier relative to the world.

I do not want to mislead you with respect to saying it would be better if the dollar were 25 cents or something like that than if it were where it is. In the long run, it is obviously better for our dollar to buy a lot in the world, but as a short-run adjustment mechanism, it clearly is important for it to be flexible. That is the important point I am trying to drive home here.

Mr. Neumann: I understand what you are saying, but what you are saying would not be necessarily true in the case where a country's dollar is artificially high, not because of its competitiveness but because of increased inflow of foreign dollars affecting the balance of payments.

Mr. Chairman: I see the nodding of a head and I am going to have to leave the answer at that, if I may, so we can move on to our next witness.

Obviously, the committee has been impressed by your presentation, Dr. Purchase, and it has given us a lot to consider in our deliberations. We appreciate your being here. I expect that from time to time we may be wanting to talk to you again. As I said to Mr. Lavelle on Monday, the committee itself will be making some decisions in the near future as to some studies that it may wish to be doing. I hope we can have consultation with your ministry to make certain that as much information can flow back and forth as possible. I appreciate your assistance.

I should also indicate that we are sorry that we are not able to put as much time into the economic outlook in total as we would have liked, this hearing taking precedence over the prebudget hearings, although we will be involved in that in the month of February. We will be talking to you again on that matter at that time. Thank you.

Mr. Sterling: Mr. Chairman, before we go on to the next witness, I was just wondering whether it would be proper to put a motion forward at this time indicating what we would want to include in the report. I think maybe a motion that the committee agrees with the chief economist of Ontario that there are modest positive gains from this agreement might be a good motion at this time.

Mr. Chairman: As the next witness approaches, I am not going to be one, Mr. Sterling, to rule you out of order if you want to make a motion.

Mr. Sterling: I do not think I will make that motion right now.

Mr. Chairman: All right.

We have with us now David Silcox, Deputy Minister of Culture and Communications. Mr. Silcox, we welcome you to the committee. We thank you for coming on short notice. There has been a certain amount of debate on the impact of this agreement on culture. It was suggested, perhaps initially, that it was not as great an impact as we might have thought. Then there are some who are having second thoughts about that. For that reason, we have asked you to come and perhaps give us your opinions on that, or your views from your standpoint, and entertain some questions.

I wonder if you could introduce the gentleman with you.

Mr. Silcox: I will. He is Richard Rodgers. He works with the ministry as the senior policy adviser, cultural industries and agencies branch.

How would you like to proceed? Would you like me to tell you where we think we stand today?

Mr. Chairman: Perhaps you could give us a brief overview of where you think we stand today and then entertain some questions.

Mr. Silcox: I think you were right, Mr. Chairman, that, initially, there was a great deal of concern about the cultural area and the cultural industries in particular--film, sound recording and publishing. The reason there was concern about that is these activities are linked very closely with a sense of identity. They help to define things that we, as Ontarians or as Canadians, care especially about or share with each other. We were concerned that in the process of developing a trade agreement that some of the ability that we have developed at some expense and expenditure of energy over the last few decades, particularly since the Second World War, would be lost.

I guess I personally was encouraged to be a little alarmed about that, since I had known Simon Reisman for a long time and know what he thinks about the cultural area. He is not terribly supportive or concerned about it. I was worried about that.

Also, in a former reincarnation, I have had a lot of negotiation with Americans in the film business. I was the chairman of the Canadian Film

Development Corp. for several years. I had a number of meetings with Jack Valenti. I found that the first thing we had to do was actually redefine words. Words like "culture," "cultural industries," "identity," "cultural identity" and "sovereignty" were simply unknown to my colleagues--and I would like to think of them as friends--south of the border because those activities, as far as they were concerned, were simply business. It was a trade issue.

In any case, we were concerned, and representations were made to us by the client groups we deal with in Ontario: publishers, film-makers, people in the recording business, people who write, composers, artists and musicians. As a result of that, we developed a position in conjunction with them. We presented it to our colleagues in Ottawa. We pushed them very hard. We did consult, and a number of areas were looked at and thought about, and positions arrived at. I guess, because Ontario is in some ways the heartland or the hub of a lot of this activity for the whole of Canada, a particular responsibility fell upon us.

The result of the negotiation turned out to be just about everything we hoped it would be. It met our definition of culture that we wanted to have exempted from the trade agreement. It looked very good from our point of view. In large part, we are satisfied with the outcome as it achieved everything we had a concern about, although it left a small residue of uneasiness.

I would like to address a few of those questions, and then I can answer some specific questions about them if you like.

I am originally from Saskatchewan. South of the border they say, "I'm from Missouri." Well, I am from Saskatchewan; I really want to see what they actually mean in practice with some of these matters.

For example, retransmission, which is the payment for the use or reuse of a television signal, is something which was negotiated. There are some aspects of that which are still very uncertain. We are going to start paying for the use of certain programs. Our Parliament decided some time ago it was going to do that, but there is a definite lack of definition in the trade agreement on that issue.

Almost a year ago, the federal government proposed to bring in legislation to give more Canadian control to film distribution, so that some of the revenues generated by the film industry in this country--it is an industry which generates over \$400 million in box office revenues each year--would remain in Canada and support the Canadian film industry rather than the American film industry. That legislation still has not gone in front of the House of Commons. We remain to be convinced that the federal government's position in Canadianizing a portion of the film distribution business is a real one.

The great fear we had about postal rates being caught up in the free trade agreement was also dealt with between the time the elements were laid out and the final text was received. The final text is silent on the issue of postal rates, or discriminating postal rates for American publications.

There may be a number of other issues which Richard could touch on or that may come up in questions. In the long term, we feel we may still be at something of a disadvantage. I do not want to make too much of a point of it because it is unprovable, but it seems to me that the diversity of linkages

around the world that Canada prides itself on is taking a step--I do not want to say taking a step backwards, but that is the effect of it. I feel this particularly in the arts area, where artists travel and are respected throughout the world, that our international broker role as Canadians seems to have perhaps been compromised somewhat by this. There are certain values from this peaceable kingdom of ours that will be harder to maintain as a long-term consequence.

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Mr. Chairman: Thank you very much. Mr. Rodgers, did you have anything you wished to add?

Mr. Rodgers: Possibly the one other concern that I would like to draw to the committee's attention is how the federal government will actually implement the new policy that it has agreed to in the investment section of the free trade agreement. That is, there is a reference to the fact that should Investment Canada require of a cultural industry enterprise which is acquired through an indirect takeover to be divested to Canadians--in other words, if the Canadian branch plant is acquired along with the parent company and Investment Canada subsequently decides that that branch plant should be sold to Canadians--the Canadian government has agreed that the government itself will acquire, nationalize through a process yet to be determined but at fair market value, that enterprise.

That raises a number of issues as to how that will happen: Who determines fair market value? What will the government do with this thing? I mean, is the government going to be in the position of owning a number of publishing companies, sound recording companies, film companies, etc.? So there are some very real concerns about the implementation of that policy. I think that is the other major question and concern that we have.

Mr. Chairman: It begs real concerns about the government just generally being in the publishing business. They are, anyway, I suppose, in a way.

Mr. Beer has a question.

Mr. Beer: It seems to me that in your last remarks you raised a number of broad cultural matters that I suppose are difficult to quantify in terms of what the impact of the agreement is, perhaps not so much on cultural industries but on whole series of aspects of us as a people, as Canadians. One of the things that I suppose we need to be clear on here is that it is one thing to be looking at specific cultural industries and determining whether it would appear at face value that the agreement affects, in one way or another, that industry versus the cumulative effect of a whole series of changes and that impact on us as a people and a nation. I think there have been some legitimate concerns raised about the agreement in that respect. That is kind of a preambular comment to the question.

I guess one of the concerns I have--and let us use the film policy as the example--is to what extent we can determine what the impact of this would be on the Canadian government in particular, and perhaps also on the Ontario government, to be able at different times to come in with different kinds of supportive legislation packages to assist our cultural industries.

Would you share that there is a concern, for example, in the film area, that there might be problems raised if the Ontario government sought--and the other example we had was in, say, the book area, the publishing area--that there are, none the less, a number of areas where it is still pretty unclear how we might be able to use government to assist both our cultural industries and cultural programs? I think, again, we would accept that, as you said at the beginning, the relationship between government and culture in Canada, not only in the definition but also in the practice of it, is so very, very different from the American experience. I would imagine that Jack Valenti would have a very hard time comprehending that.

I wonder if you could explore some of those areas with us.

Mr. Silcox: There are two or three aspects to look at in response to the issues you have raised. The first is that the two parties agreed to a future subsidies agreement, a subsidies chapter. We still do not know what the outcome of that would be, but obviously it would have an effect upon the whole cultural area, since the way Canada supports cultural activity is through subsidies--federal, provincial, municipal.

We are in something of a quandary about the future of that kind of program, as I imagine they are in agriculture, until you see the fine print on the subsidies code and chapter, which is yet to come. I do not know what the timing on that is, when they expect to do that. I would imagine it would be over the next year or two. Sooner?

Mr. Rodgers: Shorter.

Mr. Silcox: Shorter?

Mr. Rodgers: I am sorry; longer.

Mr. Silcox: Longer.

Mr. Rodgers: I understand it is five years, to be extended two more if necessary.

Mr. Silcox: So there is that aspect of it. Another aspect is the rather enigmatic--we do not know what it means--"notwithstanding" clause. It is article 2052, which says:

"Notwithstanding any other provision of this agreement, a party may take measures of equivalent commercial effect in response to actions that would have been inconsistent with this agreement but for the exemption of cultural industries."

We still do not know what that really means or what it might mean in practice, or what it means in theory. So we are uncertain as to what the retaliatory powers of the US might be to any future initiative that a provincial or federal government might take.

We tried very hard to keep room for future cultural policies and initiatives as part of the agreement, but in fact it is not really addressed. So when you look at the long-term future, I would say it is uncertain as to whether or not we actually have an awful lot of room to manoeuvre.

Mr. Beer: But clearly, whether we are talking about Ontario or Canada, it is very important as a matter of public policy that we can control

the levers of cultural policy, if you like. There are a number of, at best, unknowns in that agreement as to how we may in fact be able to do that, whether through the Canada Council or what have you.

You mentioned the film policy. Do you have a concern in terms of where that is going to go because of the specific agreement? And I assume that is critical to us because Ontario is the centre, certainly as far as English Canadian production goes.

Mr. Silcox: The film legislation that is promised and has not yet been tabled in the House of Commons in Ottawa is simply an example of whether and to what extent we will be able to proceed to carve out a new area in the cultural sector. That is why we are kind of anxious to see whether in fact they are going to proceed with it, and if they do, what it actually includes, and whether the United States would have the capability of either compromising, toning down or getting exclusions from legislation of that sort. So it is a good example. It will be perhaps the first test of the will of the government against the free trade agreement.

Another example that I could cite is in the recording area. It is a little more clear-cut, but it has implications which are interesting. The agreement reduces and finally eliminates the tariffs on recordings that have existed between Canada and the United States for a number of years and have benefited Canada in a couple of ways. One, the tariffs have encouraged the manufacture of recordings here in Canada. As a consequence, the large recording companies, like CBS, have set up major plants in Canada. They have operated quite differently from the film industry in that they have actually helped develop Canadian talent. They found a wealth of talent here as a result of the Canadianization of radio, interestingly enough, and they have been able to develop major, popular Canadian rock groups through their parent companies but because they were operating in Canada on a particular level.

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When the tariffs are eliminated, I would think there would be quite strong pressure on American multinationals in the recording business to move the business back south of the border, where you could argue that the efficiency of manufacture would be a paramount consideration. Consequently, you will lose that nurturing of the Canadian talent, basically. I think in the long term that is another example of a way of losing as a consequence of the agreement.

If you try to recover that by some government program, will that be acceptable? Again, we come back to the question mark, as far as I am concerned. I do not know whether, if you tried to find some other way of encouraging the development of Canadian talent in the music recording and video recording business, you would be running afoul of the trade agreement. I think you probably would be.

Mr. Beer: Thank you. I have further questions, but I know we are running out of time and I will let someone else ask.

Mr. Sterling: It is pleasant to see a deputy minister in tune with his Premier and his minister on this particular issue. I noted in a December 29, 1987, article in the Toronto Sun that the Premier is one who feels we are not going to lose our cultural identity on this deal, and I believe your minister has said that. It seems there are some differences between the chief economist and the Treasurer (Mr. Nixon) and the Deputy Minister of Agriculture

and Food and the Minister of Agriculture and Food (Mr. Riddell) in their assessment of this deal, so it is nice to see some minister who is in tune with what his deputy and his ministry have actually found.

I am pleased that sanity has prevailed in at least one ministry over this particular deal and that you have not got caught in the rhetoric of the past election and that you have seen fit to really put the goods on the record. I wanted to thank you for coming here today.

Mr. Neumann: I will not pursue the line of questions asked by Mr. Beer, but I do share some of those very same concerns. I want to turn it around and ask you, with your extensive knowledge of the cultural industries in Ontario and Canada, can you think where the big gains are? Supposedly this deal is to allow access to the American market. What Canadian industries will benefit in the area of culture by having access to the American market? Will there be jobs created for Canadians?

Mr. Silcox: I guess I would have to turn that around too and say we are not going to lose jobs that would have been lost if there had not been an exemption in the cultural area.

Mr. Neumann: That was not my question. The free trade deal was portrayed as a--

Mr. Silcox: Yes, I follow what you mean, the actual gain.

Mr. Neumann: Access to this large American market improves the economy of scale. What Canadian cultural industries will be able to take advantage of this access to the American market?

Mr. Silcox: There is no additional access to the American market before the agreement and after the agreement that I am aware of.

Mr. Neumann: So it does not improve that.

Mr. Silcox: I do not think whatever improvement in access there is has much impact on jobs. It is really the home market where the development is going to be. There could be an increase in jobs there, simply because we protected the home market and have an opportunity to exploit that, but I do not see great gains simply by having access to the US. I do not think that was the objective of the exemption.

Mr. Neumann: No, but it was initially an objective of the agreement.

Mr. Silcox: I do not think it had much impact in the cultural area. Do you agree with that, Richard?

Mr. Rodgers: Certainly. I think the position of the Canadian-owned cultural industries, which produce the overwhelming majority of the Canadian product as opposed to the distribution of imported product--the various programs of support that have been developed and might be envisaged in the future would help allow the Canadian product to gain a respectable share of its own market.

The fact is, across the board, the Canadian product within the Canadian market accounts for something like three per cent to 15 per cent. It varies sector to sector, but it is a woefully small percentage in each sector that the Canadian product has of the Canadian market. The really significant thing

is to attempt to get that product into the Canadian market, at which point it may then also have, as it does to some extent already, a certain amount of international attractiveness, which will then take off in the international market. Until it has its home base, there is little likelihood of that.

Mr. Silcox: With the strength that I think could develop in the cultural industries, I think we could do a lot better internationally. That kind of expansion is possible.

Mr. Neumann: Both of you mention internationally, not exclusively continentally.

Mr. Silcox: The United States.

Mr. Neumann: A further line of questioning follows from this. I know that some of the Canadian-owned cable companies have tried to make inroads into the United States in terms of ownership of cable and operation of cable systems in US urban areas, and there have been some attempts to restrict that, as I understand it. Does this agreement make it easier? I know it makes it easier for Americans to come in and buy Canadian companies. Does it make it easier for Canadian investors to move into the American cable market?

Mr. Silcox: I do not think the agreement actually addresses that at all.

Mr. Neumann: So it does not remove the present restrictions.

Mr. Silcox: No, and I think it varies. In the case of cable, the responsibility for licensing is a municipal matter.

Mr. Neumann: In the US?

Mr. Silcox: In the US. That leaves all sorts of xenophobic possibilities open, and has in a number of cases.

Mr. Neumann: I know the Rogers system--and I take it he is not a relative.

Mr. Rodgers: No, he does not have a "d" in his name.

Mr. Silcox: You do not have his money either.

Mr. Neumann: The Rogers system made application in some American cities and there were some extensive hearings at the municipal level. So all of those local barriers still exist for Canadians trying to get into the American market, but presumably there are not the same barriers for American cable companies coming into Canada.

Mr. Silcox: There are. The broadcasting area remains intact in Canada. The ownership of broadcasting systems must be by Canadians. Americans cannot come in and buy either cable companies or broadcasting companies in Canada. That whole area was never even on the table.

I really do not know what the discussion was with respect to newspapers, but I think newspapers are the only area of the media that are not governed by legislation as to ownership. Broadcasting is covered and magazines are covered.

Mr. Chairman: May I just clarify a couple of things you were saying? Did you not indicate right now that our law prohibits an American from purchasing our broadcasting system?

Mr. Silcox: Yes, a licence for broadcasting or cable.

Mr. Chairman: They have similar laws, do they not?

Mr. Silcox: No. In broadcasting they do. I think there is a limit to the amount of ownership. In other words, I do not think a non-American can own more than 20 per cent of CBS, whatever it is. I am not quite sure in broadcasting, but in cable it is a municipal decision; it is treated like a public utility and the municipal council decides who shall run the service.

Mr. Chairman: Do you know whether or not the national treatment provisions of this agreement would affect those laws then?

Mr. Silcox: I do not know that.

Mr. Rodgers: I assume not, inasmuch as the cultural industries are specifically excluded from all except the cases the deputy cited, such as tariffs on sound recordings and the instances I mentioned earlier, Investment Canada, retransmission rights, etc.

The definition of cultural industries which is included in the agreement includes broadcasting and cable and, therefore, it is excluded, so the other provisions of the agreement do not apply.

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Mr. Silcox: So national treatment would not apply.

Mr. Chairman: All right. This is a slightly different question. Have you had any interest shown in TVOntario, which is under your ministry, being shown on American cable stations?

Mr. Rodgers: It is shown.

Mr. Silcox: It is shown. Programs are purchased and some of their programs are broadcast on American stations. They buy product from us.

Mr. Rodgers: I could well be wrong on this, but I believe some Buffalo cable systems carry TVOntario, in the same way that we carry Public Broadcasting Service and other United States channels.

The whole issue of the retransmission rights was: Canadian cable companies are taking these US signals off the air, redistributing them and not paying the copyright owners any compensation, whereas that is not true in the United States. If I am correct that TVOntario is being distributed in Buffalo, then TVOntario is being compensated by that Buffalo cable company for the retransmission of its signal.

Mr. Silcox: I was not sure they were, because I know recently we have had some discussion, shall we say, about the TVO signal being picked up by Quebec cable companies. We are a little discommodated by that because we do not get any compensation. In Canada there is no retransmission right yet, so we have cable companies in Quebec actually competing with TVO's own signal. The consequence is that people who produce things for TVO, artists in particular, are saying, "Listen, if this stuff's going to Quebec, my fee has to be a little bigger." So our production costs are going up as a consequence and no revenue. But I will find out if--

Mr. Chairman: I think the committee would be interested in knowing. If you are receiving compensation from American cable companies, obviously that is in accordance with American law. It would seem that this agreement would not bind them to continue that law, while it binds us. Is my understanding correct?

Mr. Rodgers: I believe not, inasmuch as we would be bringing our law into, frankly, international conformity. It is a bit of a peculiarity that we have a piece of legislation dating back to the early 1920s, before anybody had thought of television and, therefore, there is not any compensation.

Regardless of whether this free trade agreement had taken place, given that there were intentions to update that legislation, I assume we would have addressed this issue about US and, as the deputy points out, interprovincial exchange of signals. This would have been addressed regardless of the free trade agreement.

Mr. Silcox: What happened was that, as the copyright revision was under way, the free trade agreement simply moved up US concerns about the speed at which Canada was revising copyright law and created an enforcement with particular regard to retransmission, ahead of what could have been quite a long schedule.

The reform of the 1924 Copyright Act has been under way for a long time. When I served in Ottawa, it had already been in the system for a good 15 years, and that was five years ago.

Mr. Chairman: Perhaps my question is really very hypothetical. It is not likely they are going to change that. Mr. Morin-Strom has a question.

Mr. Morin-Strom: First of all, I am rather surprised at the mildness of your comments as they reflect the cultural community here in Ontario. My perception is that the vast majority of the cultural and artistic community who have spoken out on this issue have expressed very strong outrage at the deal as a whole and the consequences it is going to have in the long run for Canada. Do you not agree with the consensus the artistic community has that this is bad for Canada, in particular for the long-term identity of Canada as a culturally distinct nation and the opportunities that those within the artistic and cultural communities will have to pursue uniquely Canadian endeavours here in Canada in the longer run?

Mr. Silcox: The reason my comments are mild is that I am basically a mild-mannered man, but I share the view of the cultural community. I felt very strongly by conviction that the threat this imposed potentially in the cultural area was a very serious one. I thought it was going to create a Canada different from the one I wanted to see. I expressed in my opening comments my view that in the long term this is putting an additional pressure on our ability to see ourselves clearly and to develop a kind of independence in the international world of nations that I think we should enjoy.

That being said, the agreement is signed. What I want to do now is get on with the strengthening of the cultural industry, since we did win the exemption--I think that is a very major point--and get on with the strengthening of cultural activities in Canada so that perhaps that trend towards continentalization can be reversed or the energy directed into other directions.

Mr. Morin-Strom: Did we win an exemption?

Mr. Silcox: Absolutely; yes.

Mr. Morin-Strom: That is not what the cultural community is saying. I think if you had a closer look at what this exemption says, paragraph 1 of article 2005 says, "Cultural industries are exempt from the provisions of this agreement, except as," whatever. Basically, that says there is an exemption, but the following paragraph says, "Notwithstanding any other provision of this agreement, a party may take measures of equivalent commercial effect in response to actions that would have been inconsistent with this agreement but for paragraph 1."

Does that not really mean the US can take retaliatory action equivalent to the economic impact of any protection we have for our cultural industry, not only active new actions that we take but also cultural provisions that are currently in place? This "notwithstanding" clause says that if we do not act consistently with the agreement--which means that in case of current cultural protection, if we do not eliminate it in accordance with the balance of the agreement in other areas--in effect, do they not have the right to come in and penalize us, so that what you are really looking at is that anywhere we want to protect the cultural industry, they have the right to trade off, so we can only protect our cultural industry if we sacrifice somewhere else in an equivalent fashion?

Mr. Silcox: If a future case came up in front of a tribunal between Canada and the US on the interpretation of this clause, I would like to have you sitting there as the judge, because we do not know what it really means. I would like to think it is not threatening in the extreme way you have described it, but we really do not know. In other words, I do not know what the baseline is. Are we starting from the day the agreement is signed and everything before that is in place and untouchable? Are we only talking about the equivalent amounts of money? Can you have a retaliation in agriculture in exchange for one in a cultural area? I really do not know. It is an annoying clause. It is a vague clause, and I just do not know what it means.

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Mr. Morin-Strom: If we do not know what it means, we do not know that paragraph 1, the exemption, means anything either, because it is the caveat under which we have got the the exemptions.

Mr. Silcox: I follow your point. I will accept that the exemption has got some fairly concrete definitions and I would be happy to try to find them.

I have had an interpretation of the second clause from my colleagues at the Department of Communications in Ottawa, which is reassuring. What I am not reassured about is whether, in fact, life is going to follow their interpretation of the law or of that paragraph. I just do not.

Mr. Morin-Strom: You cannot guarantee what the meaning of that "notwithstanding" clause is.

Mr. Silcox: No. I do not know who can.

Mr. Chairman: I do not know if this is much help, but at least one publication--and I do not have the author of this--says, "If Canada adopts new cultural measures in the future which affect the US industry, the United States would be entitled to seek compensation in the form, for example, of the

withdrawal of concessions made in the original agreement." That is from a well-known popular newspaper.

Mr. Beer: Clearly, that it is unknown is why we are very concerned about what is going to happen and why people are concerned about that.

Mr. Silcox: I assume that it could not be used to get an advantage over everything as it existed up to the point of the agreement. I think that answers part of your question.

What happens about new initiatives is what really does concern us. You inquired about how that is determined. That is why the film legislation I was mentioning earlier may become a good example of whether or not the "notwithstanding" clause has got any teeth in it. At the moment it is quite a major contingency against exclusion.

Mr. Rodgers: I think where people differ on this interpretation is, does this clause provide additional powers to the United States that it does not already enjoy? Clearly, the United States, given its trade legislation, now has powers, which it has at various times exercised in this field, to take retaliatory action against what is perceived to be dumping or unfair support to products.

Does this mean that they have got new powers? That is a very good question, and the answer is, we do not know. If the answer is no, then what the US in fact was saying, which frankly I do not think would have been unreasonable, was: "You Canadians want to exempt a whole area here from the effects of this agreement. We are not, in agreeing to this, giving up our powers of retaliation, and in exchange for that we would like that spelled out in the agreement itself."

Let us assume that the Americans do not have additional powers. They would not have needed that second clause at all, but there is a comfort level, presumably, for Jack Valenti and others in having that in there. That is the most positive interpretation of the "notwithstanding" clause. The less positive one, from the Canadian perspective, is that they might have new powers or they might use this to develop new powers that we had not seen before.

I guess the real worry is, as the deputy pointed out, that we do not know where they might exercise those powers. This would be very dangerous if they decided: "All right, those Canadians are doing things to help their film industry, and therefore there is unfair competition. Our film industry is suffering. Let us retaliate, but we will retaliate against some other sector." So you create within Canada a sector that says, "We are suffering because of special deals for Canadian film-makers," for instance, so that you build within this country an opposition group to assistance to culture. That is a potential that one cannot ignore.

Mr. Chairman: That makes sense in that--

Mr. Morin-Strom: Could I have a supplementary interpretation on your point you have just made? There could be several definitions of whether this "notwithstanding" clause is an additional power or not, you are saying, with respect to the United States.

I would make the point that this is an agreement between two countries, which means they have had the power in the past, but it has not been a power that Canada has granted them, or that Canada would have said that we do not

have the right to retaliate. This particular clause of agreement between the two countries basically tells the Americans: "You can take retaliatory measures up to an equivalent value against an action affecting the cultural industries. You can take it anywhere else you want, and we have agreed that you can do so." We have acquiesced and said, "Make them take a penalty against us," without our having what would currently be our right. If they decided arbitrarily to impose a tariff on steel to penalize us for an action we had in a cultural area, today we would go back at them and say, "If you do that, we are going to do something else," so we have some power to threaten them.

Here we have acquiesced in saying: "If you do that, we agree to it. It is part of the agreement." We have no recourse within what we have agreed to in this agreement to take other action where they may arbitrarily penalize us in a tit for tat to force our policy in the cultural sphere.

Mr. Chairman: This should not be a great surprise, though, Mr. Morin-Strom, in that when we were talking to Americans, inevitably they would profess not to really understand what we meant by "culture," just as Mr. Silcox said initially. I recall more than one witness saying to us: "You are using this as a ruse for protectionism. If it is important, buy it off the bargaining table." It looks as if article 2005.1 is a purchasing of it off the bargaining table, whereas paragraph 2 is saying that if we are going to do anything more in this area, we have got to buy it off as well.

Mr. Morin-Strom: But to this point, we have not had retaliatory actions specifically against the cultural activities we have taken. So this now is the first time we have said, "Yes, it is OK for you to retaliate."

Mr. Chairman: We have endorsed it.

Mr. Morin-Strom: Yes.

Mr. Allen: I have not heard an answer to that last comment, which was in effect a question, and your own attempt to restate it as though somehow or other this was a perfectly natural process is what essentially alarms me and alarms us.

I am alarmed, I think, in some measure by the deputy's comment to the effect that, "Well, the deal is signed, so let us get on with doing what we can within the framework of the deal." I thought this government was opposing this arrangement, and I would have thought that the deputy would have struck his remarks in that context rather than say: "Well, the deal is all struck. It is signed, sealed and delivered." Here we are, operating already within the framework of this as a fait accompli.

In that context, I wonder if I cannot ask the deputy perhaps to respond a little bit more directly. Would it be better for the cultural sector if this deal had not been struck?

Mr. Silcox: I think it is obvious from the comments I have made that it would have been better if it had not been struck, notwithstanding the exemption. In other words, it changes in a very profound long-term way the nature of Canada, and therefore I think it really does have an impact upon those aspects of Canada which are trying to describe what Canada is, all those things which have to do with our identity.

The cultural community was very close to unanimous in opposing this arrangement and fought very hard to be exempted from it. I think we put a very

good case-forward and got a good exemption in the circumstances, although there are still a number of issues that remain which we are clearly uncomfortable with.

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Mr. Allen: Should we not have refused to talk about this area at all? Is it not essentially giving away the whole issue to the Americans when we even concede that there is a commercial equivalent to our defending our culture?

Mr. Silcox: That argument was used quite frequently and quite vociferously by opponents of the process, pointing out that this would never be an issue with any other two countries and that the very fact we had to discuss it was quite a remarkable thing in itself. You would not think of France arguing about whether to put its identity on the table, but we did. It is very strange.

I think it comes back to the fact that the Americans think of these activities in commercial terms because they think of Canada as part of their domestic market and because they dominate such a large part of this market. If the domination was not so complete, I do not think the issue would have come up, but it did and we will be living with the consequences for quite a long time.

Mr. Rodgers: On the other hand, I think there is a positive way of looking at it too, that had it not been for a number of initiatives on the part of various levels of government to protect and, in essence, develop Canadian-owned and Canadian-product-producing enterprises within these sectors over a fairly recent period of time--we are talking about the last 10 to 15 years--it would not have come up either because there would not have been anything there.

The very fact that there is new awareness may bode well for the future, simply because there is a determination clearly evidenced over the last generation to have a Canadian voice and a Canadian participation in a field that previously was entirely dominated in this country by product from south of the border and Britain, essentially.

Mr. Allen: Are you trying to tell me that this deal strengthens our hand vis-à-vis all of that?

Mr. Rodgers: No.

Mr. Allen: My sense is that, coupled with paragraph 2005.2, we are consciously and deliberately qualifying our options in that regard. We all know how far back we are in terms of gaining ground, whether it is in film or publishing or you name it.

The example of the recording industry was a fairly recent one where there were tariffs put in place and where we got a very good result for Canadian performers. For some reason or other, we have been very willing to give up totally, by the so-called exclusion of cultural industries, that one really good example of the way the strategy ought to work, properly speaking.

Does that not suggest that there should be a much more active and vigorous response from your ministry on the cultural front?

My sense is that the Premier (Mr. Peterson), in the article that was cited earlier, appears to have reflected a judgement in your ministry that

basically all is well, that there is not any problem on the cultural front and that he does not have to do battle there. Should this guy's spine not be stiffened a little bit on the cultural argument?

Mr. Silcox: I think that, as I said, the exemption covers the largest part of all our concerns. When we talk to the constituency that we try to serve in this, the people who work in the publishing, recording and film industries and in the arts area, they consider it to be, in the circumstances, quite a major victory.

But I take my colleague's point that we want to get on with the building of and the increased strengthening of our cultural industries now. We did not suffer a major setback with this agreement but we can use it as an opportunity to extend and to strengthen the development that has been going on. I think the agreement itself, in that sense, sort of encourages us to get on with the development of cultural industries and the strengthening of them, because otherwise we will slip backwards. There is a permanent threat there.

Mr. Allen: How does this section intersect with the services section?

Having gone into an unprecedented services agreement--which no other trading arrangement has got into, as I understand it, perhaps with the exception of the American-Israeli arrangement--given the vague boundaries of services and given, for example, that in American film enterprises undertaken in this city one could look upon, for example, the people who work in the provision of stage management and of props supplying and of scene construction and all the rest of it, the staging operation can be viewed very clearly as a service, I think, under the services section.

Yet, as things stand, what is happening is that American film corporations that come here to produce films tend to bring all their troupe of people with them rather than contracting with Canadians. What happens on the national treatment side and the services section taken together if we were to act specifically to require them to hire Canadian services in that respect? What is your judgement of what would happen on this deal in a case like that?

Mr. Silcox: I do not know that I can answer in much detail about the interaction between the services sector and the cultural sector on that. But with respect to the film industry, if you take that as an example, the reason that a lot of American films are being made here is partly because of the dollar, I think we have to acknowledge, and partly because there are expert crews and equipment companies in Ontario which can supply the services that they want.

In the film business, people try to bring a few of their key artistic or administrative people. I think we acknowledge that and the US acknowledges that when we send crews down to the United States to make either films or commercials. But those are relatively few. Most of the jobs in what you refer to as the service areas in fact are serviced by Canadians or by Ontarians, and we really do not have much problem with that.

The broader question, service sector impact, is an interesting one which I have not really looked at.

Mr. Chairman: Because of the time factor, I am going to ask Mr. Beer if he can ask one comprehensive question.

Mr. Beer: I will be very brief here. I think that in the questioning as we have looked at the "notwithstanding" clause, the very real concern that

those of us have who do not see this as being of value is that it is--I suppose when you start off and you think that certain industries are going to be affected and then you find at least in an immediate way they are not, you say, "Perhaps we made something of a gain."

But in real terms I think that clearly, as you mentioned, the fact that we have to discuss this with the Americans because there is not really an understanding of definitions is, for the future, scary, and that the unknowns that lie within the "notwithstanding" clause are the ones that I believe ensure that we are--indeed they force us to be--extremely wary and terribly concerned. In terms of the cultural area, we feel that this is very negative.

I appreciate that when you are looking perhaps at a specific industry, there are some different focuses but, as I think we have identified, that whole link between government and culture in this country is such that this clause, even noting the exemption of it, raises, if you like, a whole series of storm signals.

From our perspective in Ontario, the question would be that, clearly, we have an awful lot of things that we are going to have to be very aware of and that the potential for some major, major problems here lies in the fact that the "notwithstanding" clause is there, because it suggests a whole series of actions that may arise. Is that a fair statement?

Mr. Silcox: I think you are quite right. I think vigilance with respect to that one--

Mr. Beer:--is more than the price of liberty.

Mr. Silcox: We are very uneasy with it. We are anxious to see how or if it will be used. I do not know what consolation it may be to know that we are keeping a wary eye on that, but it is a threat. There is no question about it. Just how real or how extensive a threat is what will come up case by case.

Mr. Mackenzie: (Inaudible) are not sharp enough to be able to take it on.

Mr. Silcox: I married an American just to try to dilute the effect somewhat.

Interjection: I did the same thing.

Mr. Chairman: With that scary conclusion--

Mr. Beer: Modestly scary.

Mr. Chairman:--we thank you very much for assisting us. Obviously, you have opened our eyes to some areas and clarified a great deal, and we are grateful for your help.

Members of the committee will note that this afternoon we have presentations at two and three. The Ministry of Consumer and Commercial Relations is in the process of being scheduled for another time. We will see you at two o'clock.

Mr. Ferraro: Are we meeting Friday?

Mr. Chairman: No, we are not meeting Friday. That is why we are juggling.

The committee recessed at 12:12 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

WEDNESDAY, JANUARY 20, 1988

Afternoon Sitting



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Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Natural Resources:

Tough, George, Deputy Minister

Wardle, Bill, Industrial Liaison Officer, Wood Allocation Section

Coke, Alison M., Policy Officer, Policy and Planning Secretariat

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, January 20, 1988

The committee resumed at 2:05 p.m. in room 151.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: I see a quorum. We might as well get started. This afternoon we have with us representatives from the Ministry of Natural Resources: the deputy minister, George Tough, on his left, William Wardle and on his right, Alison Coke. Mr. Tough has a prepared statement that will be distributed to you within the next 10 to 15 minutes. He is going to go ahead and read it and then entertain questions.

Welcome to our committee. We appreciate your coming and helping us.

Mr. Tough: Mr. Chairman, members, we would like to thank the committee very much for this opportunity to discuss the impact of free trade on Ontario's natural resource sector.

There is a wide variety of our ministry interests actually or possibly affected by the trade deal, and I am going to concentrate on the forestry sector today. From an economic perspective, I am sure you understand why. Forestry employs more than 140,000 Ontarians directly and indirectly. It is the life blood of many northern towns and it also accounts for a lot of employment in southern Ontario.

The jobs I just mentioned depend on access to the United States, our most important market. In our view, we have a free trade agreement that creates uncertainty for that industry. We do not know where the agreement takes this important industry, and that is why I will concentrate on forestry.

I will also highlight other concerns that are raised by the agreement. We have uncertainties in its potential impact upon the commercial fishing industry, uncertainties concerning water resources and tourism services. We are concerned about our freedom to maintain and implement regional economic development strategies. We even think that, in some instances, this agreement may hinder our ability to practise effective management of natural resources. We definitely have uncertainty about the process of settling disputes with the US in these matters.

I will come back to these points in a few minutes but, before I do, I would like to talk more about our vulnerability in the forest industry.

I have had the privilege over the course of my career, which stretches now 20 years in the public service, of working with people whom I consider to be pretty good negotiators. All of them, whatever the issue, had an approach to negotiations that involved a running tally of what we call gets and gives as we developed our bargaining position, as the negotiations progressed and at the end. That is the way we have looked at the free trade deal from a natural resources point of view.

In his 1984 document, *An Agenda for Economic Renewal*, the federal

Minister of Finance spoke to a visceral concern of the resource regions of Canada, and of Ontario in particular, when he noted that: "Canada is the only major industrial country without unimpeded access to a market that is large enough to permit substantial economies of scale. If we are to foster growth through trade, we must obtain more secure and improved access to foreign markets."

Why was this of special interest to hinterland areas of Ontario and Canada? For a number of reasons, including:

The heavy dependence of these areas on the production and export of resources.

The potential of these areas to produce far more than domestic markets required. For example, Ontario exports 80 per cent of the pulp it produces and 75 per of the newsprint.

More than 20 Ontario communities depend on the forest products industry for their economic survival.

71,000 families depend directly on that industry for their livelihood, and a further 71,000 indirectly.

26 per cent of all Canadians who work in the forest sector are employed in Ontario.

Of these people, 45 per cent work in manufacturing in northern Ontario.

The value of Ontario's shipments of forest products is \$8.5 billion each year.

The value added to those shipments is \$3.5 billion.

The tax revenues for Canada on those products total \$582 million. Of that, \$171 million goes to Ontario.

Of critical importance, it seems to us, is the fact that in the context of trade discussions we want to keep reminding ourselves that many of the major US actions that impeded Canada's exports to that country were focused in the area of natural resources.

There is a great deal of talk about the impact of the trade talks on some of our high-tech industries, on the cultural industries, on the service sectors, but if we recall some of the history, we have to recall the fact that one of the principal factors which stimulated serious discussion of trade talks was the fact that our resource exports were getting hammered in the United States market.

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Minerals, fish, forest products and, to stretch the definition to the primary sector, steel: There is virtually no region of Ontario that has been untouched by those kinds of actions. Potash, shakes and shingles and softwood lumber were just three of the cases that were simmering--and sometimes boiling over and scalding us a little bit--in Congress or outside it, largely due, in our view, to a lack of competitiveness on the part of US resource producers.

Against such a background, it is easy to see what the resource

industries and the resource regions of Canada wanted: the unimpeded access that Mr. Wilson said we should aim for. From our point of view, that was the central "get" that Canada had to achieve in these negotiations: to remove a pall of uncertainty regarding access facing the resource-producing regions of Ontario.

Remember, as well, that as the bilateral trade talks began in earnest, we had just been traumatized by the softwood lumber case and the subsequent federal levy. Many people in the industry and many people in northern Ontario, in particular, wondered: "What is next? What is the next trade action that is going to affect us?"

We did not get our key "get" in these negotiations. All the "gives," including a key one that I will note in the forest sector, were insufficient to achieve that objective of unimpeded access to the US market for our forest and other resource products. We did not even get the consolation prize. We did not get a binding dispute settlement mechanism that we said we would settle for as second best.

You will no doubt, in the course of these discussions, hear from others who have a more positive view. They will argue that we did make gains, by having the US agree under chapter 19 to establish a binational panel to give final review to cases of US countervail action. We really believe, however, that those who applaud this are simply kidding themselves.

That panel would do nothing to discourage actions by US producers against our resource products. It would do nothing to change the basis for those actions nor to impose a stiffer test for phrases like "injury to US producers." It would do nothing to improve the balance in US consideration of relative levels of subsidy in each country to the industries in question. It would do nothing to reduce the political clout of the resource regions' representatives in advancing the case in the cause of their constituent industries.

What is the mandate of the panel? It is to review the case to see whether US law has been followed. That, in our view, is cold comfort indeed. Did anyone in Canada seriously base a concern about what has been happening to our resource exporters on whether US law has been followed? Surely that is a given.

In our view, the real issue is not whether the law was adhered to but whether the law is fair and appropriate to our trading relationships and to a recognition of the differences in how the two countries relate to their industries and to their regional development needs. The bottom line again is that we did not get the only thing we really had to have, unimpeded access.

There is nothing in this agreement, for example, to inhibit, much less prevent, a pulp and paper producer in the United States who feels injured by our exports from launching the same kind of action as US producers did repeatedly against our softwood lumber mills. All that has been added is an additional court of appeal whose mandate has nothing to do with the merits of the charge or our defence against it.

We believe that all representatives of Canada's resource regions, and all of the forest industry, felt it essential to achieve unimpeded access. We shared their excitement that this, or something close to it, might indeed be gained through the bilateral trade talks.

One of the reasons, looking at it from a regional development

perspective, is that you can do an awful lot of fiddling around the edges of regional development in Canada and in Ontario but really you will go absolutely nowhere if you cannot assure an investor or an industry that it will be able to sell their products from a Canadian base into a US market.

Now that the talks are over, the unanimity, the excitement of anticipation in the outcome, that unanimity has broken down. We do not now share the positive assessment that was expressed by some other resource regions or some components of the industry.

Let me, rather impertinently perhaps, suggest a couple of reasons why some are happier than we are and then comment on those reasons. These are not reasons I have made up, Mr. Chairman, these are reasons that perhaps you will hear and I know we have heard.

Reason one: "It's better than nothing," and as a variant on that, "We had nothing to lose." Our view is that whenever you go into a negotiation seeking something very important and you walk out having failed to get it, you have lost, especially if you put, as Canada evidently did, a lot of "gives" on the table to try to get that "get."

The fact that we concluded a deal and were willing to sign it provides an acceptance, an endorsement of the way the US does trade in the resource business. Crucial in this context is the fact the deal includes a provision grandfathering the softwood lumber deal, a deal we continue to believe was inappropriate and unfairly damaging to our forest industry.

We ask, "Shouldn't a deal that is premised on freer markets provide for the removal of an impediment such as this?" The only way we can understand the outcome on this point is to presume that US perceptions of free trade are not even in the same ball park as ours.

In my view, that does not bode particularly well for the future of our resource trade relationship. So we find it hard to believe that the deal is better than nothing. We have a lot to lose, and the deal we have here does not stop that risk.

Reason two: "Don't get hung up on the actual text of the deal. It's the atmospherics that count. The deal sets a new co-operative stage for the consideration of trade issues between Canada and the United States and will foster an environment that discourages trade actions against Canadian resource producers."

That is what we call the psychological school of trade relationships. We have never seen as many psychologists in our lives as we have during the discussion of the trade talks, particularly with proponents of the deal in the last few months.

Mr. Mackenzie: Or economists.

Mr. Tough: It does seem to me that the issue in the United States when it comes to trade and trade issues between Canada and the United States is always much less one of psychology than it is one of good old regional politics.

Remember, it is not the US administration in most cases that starts the ball rolling in trade actions against our forest industry or any of our other primary industries. It is a senator or a congressman or a bevy of both,

prompted by their hurting industry, who start the process going. And it seems to keep going under the US system whether the administration loves us or not.

Millions of dollars spent by our industries and by our governments, months of time and lots of personal anguish in our resource communities later, our industries and our towns in the resource regions find out what is to happen to them. There is not that much psychology involved in all that, I am afraid.

This is why we part company with the generally bullish view of some of the resource industries and some of the resource regions. We are disappointed in this deal, and it is not just a rhetorical or theoretical question. We have a live example, one I have already mentioned, of US trade action in softwood lumber.

You may recall that, in 1983, our forest products industry was under attack in the United States. That year we had free, unimpeded access, what we continue to seek, to the US softwood lumber market and our products were selling well. The forest industry in the US demanded that countervail duties be imposed, but Canada won the day that time. We received a favourable ruling from the US which held that timber pricing and allocation policies did not amount to subsidies.

Almost immediately, our softwood lumber exports came under attack again. By 1986, the political climate had changed. The United States Coalition for Fair Lumber Imports filed a petition with the International Trade Commission requesting a 27 per cent duty on Canadian softwood. The Canadian government negotiated the deal. This went against the wishes of the industry and the Ontario government, which wished to fight the case through to the finish in the US system and before the General Agreement on Tariffs and Trade, if necessary.

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This tax had and has and will have serious implications for Ontario. The additional financial burden played an important part in the subsequent closing down of four mills in Longlac, Kapuskasing, Smooth Rock Falls and Keewatin. That is 500 jobs, and another 450 jobs could be on the block. We hope not, but there is a danger. There are six sawmills in Ontario whose major production is studs for the housing market. Those mills are vulnerable if housing starts decline and our dollar strengthens further against the American dollar.

At somewhat less risk, although not risk-free, are some 850 other sawmills across Ontario, which employ 6,500 people. If the positive economic climate that we are now enjoying changes, there could be big trouble, bigger than we have experienced so far. So it could be another year of concern in Ontario's softwood lumber industry.

We were hoping that this free trade agreement would help get us out of this deal in softwood. We also hoped and expected this agreement to give us back a guarantee of free access to the US market. As I have said, we do not have that. The Canada-United States deal therefore has already had a perceptible negative effect in what it failed to do for us. We do not need any more softwood lumber deals. The industry does not need any more and the regions of Ontario do not need any more. Unfortunately, the pact does not do anything to insulate us from those kinds of actions.

Let me acknowledge here that one of the clauses of the free trade

agreement calls for the negotiation, over a five- to seven-year period, of a mutually agreed set of rules on countervail cases, including subsidies and their definition. There is a ray of light there. There is, however, no basis in case history for assuming that will really help us.

I commend to your attention the column by Deborah McGregor in the Financial Times of January 18 which probably speaks for itself. Suffice it to say that we find some agreement with what Deborah is saying and her pessimism as to whether that is really going to help.

I have talked for a long time on the forestry issue, but it is of critical importance in its own right and in its broader implications for the resource sector and for Ontario's and Canada's regional development aspirations. Despite the fact that I have placed a great deal of attention on the negative implications of the trade deal for our resource industries and for our resource areas, we will continue to have a strong, viable forest industry. We expect to be able to encourage additional investment from new plants and from expansion of existing plants, but it is going to be harder than it would be if we had an arrangement that provided us with unimpeded access.

I noted in my opening paragraph that there is another array of resource-related issues that may or may not be affected by the bilateral trade deal. Some may involve an inhibition of our ability to manage Ontario's natural resources. We simply do not have all the answers. We have a string of questions instead, such as:

Does the free trade agreement provide a basis for the advent of US commercial fishing interests in the Great Lakes? While we know the agreement does not roll back existing legislation such as our restrictions on commercial fishing, the agreement does set out new rules for investment. The question is, therefore: Could this open the door to allowing US commercial fishing units in our waters? Almost 80 per cent of our catch is sold in the United States, so there could be interest in the US in fishing here.

Does the free trade agreement undermine our ability to regulate the harvest of fish in our own waters through special fees? We feel that our policies and programs that help conserve and manage our fisheries can be defended even under the new agreement, but again, there is some uncertainty.

There is a final point that I want to make about uncertainty in this general regard. It is a question of sovereignty. Will free trade lower our ability to impose quantity restrictions when it comes to diversions of water into the United States? This is a concern to us, and the present free trade agreement does not really address that.

We recognize that the federal government has issued a policy on water resources that says Canada will not tolerate large-scale diversions. What is large scale? In my view, and that of Mr. Morin-Strom from Sault Ste. Marie, we would think that anything larger than a bottle is large scale. We need some resolution of some of these issues.

We wonder why the policy which Ottawa issued did not form part of the understandings in the free trade agreement. One thing for sure is that there are giant aquifers in the United States being drawn down and not being replenished. Every year, the water tables are dropping. It seems to us that our water supplies will inevitably become attractive over time.

In closing, let me refer to my earlier concerns about the objectives

Canada set out with in terms of the resource sector and what we emerged with. There will be others who will testify here to the array of gives and gets in the deal from a sectoral or cultural or provincial perspective. It is not my place to comment on those. What we do believe most earnestly, however, is that we did not get a crucial get in the deal. From our perspective, that is a fatal flaw in the new arrangements.

Mr. Chairman: Thank you very much for what I think the members will agree is a very clear statement. Mr. Mackenzie has a question, then Mr. Ferraro.

Mr. Mackenzie: Maybe my own bias is showing but I must say I find this statement a little tougher--that may allow for whichever way you fall yourself on this particular issue--than those from either the Treasury or the Ministry of Culture and Communications, which pretty well convinced me that the collapse I was waiting for in this Liberal Party was under way, after listening to their presentations here this morning on this free trade issue.

Mr. Beer: Not to worry, Bob.

Mr. Mackenzie: You sure would not think we had any major problems if you had taken in their briefs.

You talk about the unimpeded access and how it could have been of some use to us. There are people who question just exactly how much more of our resources we are really likely to sell anyhow to the US; that is, most of our surplus, other than auto pact. Do you have any idea what the potential might have been in terms of additional sales if we had that unimpeded access?

Mr. Tough: I think there are two aspects to this. I think the crucial one, with great respect, is not necessarily the marginal increase we would see in our exports to the United States. What we are terribly concerned about, which we know the industry and the resource regions are concerned about, is, how do we keep what we have? How do we preserve the access we now have?

Mr. Mackenzie: You do not need to go any further because that is the point I am getting at. Even you are saying there might be marginal increases in what we could export to the US. Initially, in this whole question, it was this vast US market we could have access to that was the reason for the greatness of this free trade initiative. More and more, from more and more groups, we are hearing that even if we had the access, it is probably marginal what we can ship there, at least in some of our basics, but that it is a protection of the status quo. We heard that in steel, very clearly in the presentations. I heard it over at the forestry breakfast we had a few weeks ago. In effect, what they told us was they were really arguing to protect the status quo.

Mr. Ferraro: Liquor, too.

Mr. Tough: I do not use the word "marginal" in the same sense as the member. In our concern, we are talking about protecting a very large foundation and then seeing what we can do above that. I guess we would say that if we cannot protect the foundation, our opportunities to secure additional exports are going to be extremely difficult. We do believe, if I may respond a bit further, that there are further opportunities in the resource industries.

I know that Mr. Smith, the Deputy Minister of Northern Development, is

coming to speak to you subsequently and I am sure he will speak for the mineral sector, but we do have a view on the basis of our analysis that there are additional opportunities, both in terms of additional exports of what we have been exporting and in terms of higher value-added products from Ontario, based on the forest resource available to us.

I would be reluctant to accept a notion that all we are trying to do is protect the status quo. I would, however, say if all we were able to do was to protect what we now have, that would be a major accomplishment which has not been reached.

Mr. Mackenzie: Over and above that, in any of your studies or information, do you have, any figures at all you can give us on what this potential might be in value added or in increased shipments to the US?

Mr. Tough: I am very reluctant to speculate on that. We are always speaking to private sector representatives who have some views. We have, in the case of the area north of Sault Ste. Marie--Mr. Morin-Strom is familiar with this--a community that on its own initiative has engaged a firm of consultants to see whether there is the potential for an additional greenfield wood products plant in that area. It will cost you \$10,000 to get a copy of that report, so I do not have one, but all I am told is that from what is in there, there is a basis for expecting that if the circumstances were right and we had access to a good market, there would be a basis for an additional plant in that area. Certainly, we are not constrained in that particular case by the availability of the forest resource.

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Mr. Mackenzie: To go at it from another angle, we have long argued, as you are undoubtedly aware in the ministry, for the development of a mining machinery industry--even forest product machinery, I guess--in northern Ontario. There are serious questions in many people's minds as to whether or not the incentives or subsidies or whatever else might be necessary to develop that kind of an industry, if we ever went that route, could be put in place given this free trade agreement. We may very well be restricting ourselves, strictly apart from whatever one or two or half a dozen additional mills might produce in the way of exports.

One of the things I think is important--you touched on it yourself--is that one of the major irritants that helped provide ammunition for the free trade negotiations, the December 31, 1986, softwood lumber memorandum of understanding, has been singled out, as I understand it, to be left intact in the free trade agreement. Is this not sort of like the Americans getting it both ways? Have we not been the total losers in that arrangement?

Mr. Tough: I have already made my remarks on that subject. I find a considerable degree of convergence in our views. We were not happy with the softwood lumber deal. It follows that since we were not happy in terms of that deal, we continue--we did then and we still do--to believe that it was quite unfair, quite inappropriate and poorly based analytically. It was the product of some good regional politics in the United States, which unfortunately carried the day.

Mr. Mackenzie: Now it is left intact and it is guaranteed. When we talk about protecting what we have, it is guaranteed and we start from a lesser position than we were in before.

Mr. Tough: That is a concern. In embarking on the negotiations, one

would have thought that on our list of "gives" and "gets," one of things that we would have wanted to get was either some sunset on that levy or, to be more ambitious, to just get rid of it altogether on the basis that it was no longer well-based. That has not been the case. On the contrary, as the member indicates, it is now entrenched as a continuing basis for doing business with the United States in resource trade. It is just a terrible precedent, I might add.

Mr. Chairman: A precedent that might be used in other areas as well.

Mr. Tough: We would never invite anyone to go at us in any of the other areas, but the same kind of flawed logic that led to the levy of the softwood lumber tax and the consequences for us could, with the same kind of logic, be applied to a number of other sectors, not excluding pulp and paper. Fortunately, we have a buoyant market for pulp and paper at the present time and most industry analysts think that is going to continue for some time. We have found in the past that the key to US action is when the market tightens up, when things get slow down there and there is real competition for markets in the United States. That is when the countervail actions occur.

Mr. Mackenzie: I have just one more point then. The figures I have--they are probably taken out of some of your own documents--are that we have got about 90,000 people annually involved in producing mineral products worth about \$8 billion in Ontario. It is 25 per cent of our provincial exports and we have a surplus. We have got \$8.5 billion involved in wood products and about 70,000 jobs involved. There is no question of the importance, particularly to northern Ontario, of these particular products.

Historically, there has literally been free trade--no tariffs with the US--in Ontario's minerals, lumber, pulp and paper and newsprint industries. Regardless of the pressures that have been on--I grant you that the sentiment goes up and down depending on the legislation in the United States--with literally a free trade arrangement in these products now, we have already got some of our major surpluses and the health, such as it is, of northern Ontario in exports. Yet if we are looking at guaranteeing that access, the free trade agreement does not do it.

There is nothing in it, other than a ruling on whether a complaint is valid under a US law, that prevents US dumping or countervail duties. Certainly, the dispute settlement mechanism will not guarantee our access, so I guess I am really asking once again the same question I have been asking all the way through here: What have we really gained?

Mr. Tough: I think we have lost ground because we took a shot at improving the environment for resource trade with the United States and I do not think we have. I would argue that in agreeing to a mechanism which is not a dispute settlement mechanism but essentially a panel to validate, as the member calls it--it is a good phrase--the workings of United States law, we have in fact validated the process we take exception to.

Mr. Mackenzie: Here we are rushing into an agreement that has all kinds of implications, whether you are for it or against it, in an area where we have most of our surplus now, where in effect we have had a free trade arrangement, where we have already been entrenched in the softwood lumber deal and where we have not gained the one thing that I heard in this committee--I might say even the Tory members in previous days, in the early days, the first round of this committee said--was absolutely essential, that we get some relief or some ability to deal with US countervail, which we do not have in the agreement. It just boggles my mind that we are even thinking about this.

Mr. Ferraro: I will try to be brief. Mr. Tough, thank you for your not-so-modest remarks. I am just sorry that my colleague Mr. Sterling is not available, but hopefully he is watching.

On the dispute settlement mechanism per se, I personally believe you are absolutely right. The dispute settlement mechanism has not been attained and indeed it is confusing, to say the least. Let us hypothesize that the deal goes through the Congress and is implemented in Canada. Notwithstanding our successes at the General Agreement on Tariffs and Trade, in which I think Canada has been much more successful, is there not also the fear that because the deal is in place, the federal government will be compelled to take any dispute through this system?

One of the prerequisites is that if you go to this system, you cannot go to GATT. It is one or the other. But because they have this joke, quite frankly, in place, they are going to be compelled to go there as opposed to GATT. Would that not be a reality?

Mr. Tough: I cannot say. Inherently, the mechanism we are focusing on in that deal is one which is triggered by US actions at the industry level and so on. I cannot say what the federal government's thinking might be. I sense you are arguing that since we now have in a binational agreement as a way of doing business, we will be driven to do that rather than resorting to GATT.

Mr. Ferraro: And as a result have an effective reaction to our action.

Mr. Tough: I cannot say. We would only argue--we would use similar counsel as I think you would--that given our lack of success in countervail actions in the United States, almost anywhere is better.

Mr. Ferraro: Let us go with GATT.

Mr. Tough: Almost anywhere is better.

Mr. Ferraro: I guess what I am saying is that not only is it somewhat confusing for people to understand, but even from a political standpoint, if you are promoting this deal and you end up in a box, if you will, as a country with another dispute, then you really have no alternative but to use this mechanism. If, admittedly, half the people think it is a joke, you have no choice and you are jeopardizing a very successful avenue that you have had in the past. I will conclude with this and ask for your opinion.

Mr. Chairman: The province of Ontario could not use this mechanism; only the parties in agreement.

Mr. Ferraro: Only the parties to the agreement; that is right. I am confused when you have somebody like Mr. Zimmerman who is quoted in the paper. I do not know if you have seen it. He is the chairman of Noranda and chairman of the Canadian Forest Industries Council who seems to be saying--I will quote it for the benefit of the committee--"If the process had been in place a year ago, the Canadian government would not have imposed the 15 per cent tax on softwood lumber exports by Canadian firms. I think it's directionally correct. It's early days and there is going to be a lot of backing and filling, but there is going to be more balance in the judgements."

I guess it is safe to say that is his opinion and you have yours, or is there some basis for it?

Mr. Tough: We do not dispute the way Mr. Zimmerman feels about it. I think Mr. Zimmerman would argue, and he can argue for himself, that it is better than nothing, that there are mechanisms and there are improvements in the trade environment that are going to lead to situations where we either head off or we mute or we deal in a better way with those kinds of issues.

All we can say is, we do not see that. We do not see the basis for that kind of contention. There is a large part of us that hopes Mr. Zimmerman is absolutely correct. All we are saying is that we just do not see the basis for that kind of optimism. We do not see that what we have in front of us is the basis for those kinds of optimistic statements.

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Mr. Beer: Mr. Tough, in this area one of the things we often see is that different parts of the industry say, "We think this is a good thing," for whatever reason. Some of us have had the opportunity to meet people from a variety of companies, large and small, in different resource industries. One of the things that has struck me about some of those informal private discussions is that there is a much greater diversity of opinion, not only in terms of small lumber producers, forestry companies, but also even within some of the larger ones.

The point you made earlier was that for some people it is a question of the atmospherics, of people saying: "We don't want to get them mad. Maybe it doesn't do much of anything, and if they like it, let's go ahead." But in a public sense you get the view expressed where industry after industry says, "This is fine; this is good," and who then are we, the government of Ontario, to be telling them what is good for them?

I am sure we are going to be hearing from some of them and we are going to be able to put questions to them, but is it your experience as well that in terms of the public statements that are made by many of the resource industries, in point of fact they would be sharing a lot more of the concerns you have expressed, that there is not necessarily a monolithic view in reality and that they perhaps feel compelled, for whatever reason, to make that argument?

Mr. Tough: I really cannot speak for them. We speak to a lot of them. Mr. Wardle and Ms. Coke and the rest of us speak to a lot of the industry members. I think that as a group they take the view that this is better than what we had before. I do not quite know how they could say otherwise, but I guess if one explores the reasons that view is there--again let me emphasize that never was a deputy minister more ready or willing to be wrong. I really hope they are right. I hope this does create an environment, either through atmospherics or through some structures or evolution over time, that does inhibit the kinds of things that they and we are worried about.

I guess, however, we would have to say, on the basis of everything that we read, everything that we hear and everything that we hear from representatives of the industries that we are unpersuaded that we should take other than a view which is one of extreme disappointment.

It may have been that we were all quite naïve to expect that we could go into that US market with our resource exports, on which we do not have a monopoly any more, and expect that we would get unimpeded access. The member makes a very good point, however, that we had unimpeded access. We had unimpeded access until some of the trade actions took place. They have affected the potash industry and the uranium industry. You have a long litany.

On the question of tariffs, while there are some incidental level tariffs floating around in the system, they are neither here nor there. It is a question of the nontariff barriers in those actions.

Forgive me for chewing up your time.

Mr. Beer: No, that is fine. Thank you.

The other question, which is a separate one, relates to water. I suppose if we are looking at new areas that we feel we are going to be getting into, the whole continental use of water is one of them, and clearly there are some concerns there. Where do we stand now in terms of the use of our water? What are we aware of in terms of what the Americans may want? Is there anything in particular that is going on or that we could, in looking at the agreement, see as we look down the road five, 10 or 15 years? It seems to me that potentially becomes one of the most critical areas that may develop here.

Mr. Tough: We do not know. I really wish we did. I would like to be more helpful to the committee and we would like to be more helpful to ourselves and to our ministers. All we know is that, as a ministry, we do enough reading to recognize that there is an impending deficit in a number of areas in the United States and we seem to have quite a bit of water up here. In some years, of course, we have a little too much.

We do not really know. However, from our own parochial perspective as a ministry, if one is dealing with something that one calls a comprehensive trade deal and if there is a general awareness in the populace that there is a potential or an apprehended potential for trade in water, we would have hoped that might have been dealt with in the confines of an agreement.

It is, at best, untidy. If something is lying out there that is a potentially tradable commodity and you see an emerging supply-and-demand situation in the United States, we would have wished that might have been dealt with explicitly in the agreement, rather than in a kind of add-on by the federal Minister of the Environment, which is not particularly helpful in the sense that it is not quantified. I do not express it as an unease; it is just a situation where again we really do not know and it is a page that was not in the agreement.

Mr. Beer: In connection with that, in terms of our own Canadian water policy, interprovincial and federal, obviously one would hope, before we got into any discussion with the Americans, we would have a national policy that had the agreement of the provinces.

Have there been any meaningful discussions around that? Are there intended to be or is this one of those subjects that is still the subject, I suppose, of a lot of learned articles and what not, but we have not really come to grips with this one yet?

Mr. Tough: Might I ask Alison Coke?

Ms. Coke: OK. In fact, water has been the subject of federal review. Mr. McMillan, in announcing a new federal water policy last November, said as part of his statement that the federal government would not tolerate large-scale diversions of water. So, in fact, it is part of the new federal water policy.

To add to that, I guess part of the uncertainty in this agreement is the

GATT. What is a good? Is water a good? We go back to the GATT definitions of whether water is a good and it is not really defined in GATT. It is not clear whether water is a tradable good or not.

Mr. Ferraro: Freeze it and ship it down.

Ms. Coke: Nothing in this agreement, however, compels us to trade in water, but there is enough room in article 409 of the agreement, promising proportional access to goods, etc., that there may be some gain for the US to restrict quantities tied to the United States. That is really where the uncertainty arises.

Mr. Chairman: From the legal perspective, I think the structure of the agreement, with things like the softwood lumber clause put in it, suggests that a water clause should have been included.

Ms. Coke: Exactly. It was never made explicit. Meanwhile, there has been a federal policy on it and our question was: Why was that not part of this agreement? It was certainly issued before the agreement was signed.

Mr. Ferraro: What is a large quantity, too?

Ms. Coke: That is a good question.

Mr. Chairman: Mr. Beer, Mr. Mackenzie has a short supplementary.

Mr. Mackenzie: I wonder if there could be a supplementary on yours, which is very, very brief. I almost hate asking it, but it ties in exactly with what you have been discussing. Is the so-called GRAND Canal project totally dead, in your opinion, or is that part and parcel of what could be part of a water policy problem in years to come?

Mr. Tough: If you are asking for a personal view on the part of the deputy minister, it sure is dead. It never was alive.

Mr. Mackenzie: With the kind of money that is already in it and the names of some of the directors, it always made me wonder, you know.

Mr. Tough: That is just one of a whole bunch of hare-brained schemes that have been thought up over the past few decades, ranging from that North American Water and Power Alliance scheme that was going to go down the west coast, and we have stuff going down the east coast and so on. If you work out the economics, it is just terrible. It does not make any sense ecologically either.

Mr. Mackenzie: It always disturbed me that Reisman was one of the directors of that company.

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Mr. Chairman: I have a number of other questioners and I have just received a message that the Ministry of Northern Development is unable to appear this afternoon, so perhaps if everyone is agreeable we can relax and go at this in a continually thorough way.

I have Mr. Neumann, Mr. Morin-Strom and Mr. Haggerty.

Mr. Neumann: My first question deals with the softwood lumber issue.

You obviously are of the view that we ended up with a very bad deal on that specific issue. Can that be renegotiated? Is there a clause in it that allows us to get out of that and improve our situation?

Mr. Tough: Alison or Bill Wardle could speak to that. It is my impression that it is not a case of renegotiating. It is a process of our going to the US industry and the US government with what they would call compensating mechanisms and showing them that, by hiking our stumpage and other things, we have brought our levies up to a level that satisfies them.

Bill, is there anything to add to that?

Mr. Wardle: Canada can terminate the agreement, in which case the Americans will put 15 per cent duty on imports going into the US.

Mr. Neumann: Could that bring it into the new dispute settlement?

Mr. Wardle: I think it is totally outside; it is totally grandfathered, the way I read the trade agreement. British Columbia has negotiated an exemption for its producers by charging its forest industry an additional \$623-odd million to buy an exclusion from an export tax that would have collected about \$300 million. They paid about \$1.79 to get \$1, which does not seem to me to be very sensible.

Mr. Neumann: I would agree with you on the enormity of that deal. Just looking at a report circulated to us, it says, "It has been dubbed the largest self-imposed fiscal penalty in world trade history." That is quite a statement.

Mr. Chairman: Who said that?

Mr. Neumann: That is in the Globe and Mail Report on Business, Thursday, December 31, 1987. It is a story by Kimberley Noble, a reporter for the Globe and Mail.

Mr. Wardle: We could negotiate a comparable exclusion for Ontario producers, through Ottawa, with Washington and with the US industry, and with US industry's approval. We would have to charge Ontario industry about two and a half times the present price for wood in order to get out from under a \$30-million federally imposed tax.

Mr. Mackenzie: So we would substantially increase the cost to Ontario.

Mr. Wardle: Whatever is done has to equal 15 per cent at the border, which is about an additional \$8 or \$9 per cubic metre for wood, from a present base of about \$4.50 on average.

Mr. Neumann: The second area of questioning I would like to get into relates to the historical perception of Canada's role in the world as a hewer of wood and drawer of water, and the practice from time to time of requiring that resources be processed at least to first or second stage within this country. I can think of fisheries as an example.

Is the ability of either provincial or federal governments to do that in the future impeded by this agreement, and to what extent?

Mr. Tough: That is not entirely clear. If we were to contemplate

some of the actions taken by federal and provincial governments in the past to secure further processing, which is essentially to buy it, we would be in deep trouble with the United States and we would subject ourselves quite readily to countervailing duties.

Whether we can continue to maintain suasion devices, such as section 104 in the Mining Act, is not entirely clear to us. I am not ducking, but that is a question that one might want to put to the Ministry of Mines, which will see you subsequently. It is not entirely clear, and it is an excellent question whether in fact we can hold back resources in the interest of securing further processing. It is not entirely clear to us at this point.

Mr. Neumann: Obviously, there are more jobs at stake the more you get into refining and processing.

Mr. Tough: Yes.

Mr. Neumann: I would like to read a quote here, and I realize it does not relate to natural resources, it relates to another area, but I want to make a reference back. An article, again circulated to us, referring to a company operating in Canada, said, "When a company is selling a product in the US"--this is an American branch plant talking--"it is not allowed to market products south of the border by its parent," according to the company's vice-president for planning.

It seems to imply that when you have American-owned companies operating in Canada, although we are talking about liberalizing trade, within the corporation there can be self-imposed trade restrictions on branch plants. Do you see this as a potential danger within the resources industries, given the fact that the agreement allows for unrestricted--or very few restrictions, at least--foreign purchases of Canadian companies? In other words, the Foreign Investment Review Agency is gone and we might get more foreign ownership within the economy.

Mr. Tough: My colleagues can comment as well, if they wish. I guess a general comment is that, almost paradoxically, a lot of the activity in the forest sector began for reasons which are just the opposite, in a sense; it was an establishment of the plant to supply the US market. Probably the original paper mills were established for that purpose.

In terms of the resource sectors, I think the enormity of our surpluses in a lot of those resource sectors would effectively rule out any idea that you were truncating the market opportunities for those firms. If you were a US firm, whether it is Boise Cascade or another firm, you simply would not embark on a major investment if all you had to look at was a Canadian market opportunity.

What we do find increasingly in a number of those firms is that the old reliance that could be placed by an affiliate on a sure market in the parent is breaking down and a lot of those parents are now saying, "You are competing for our markets just as much as some of those other people are." We are finding that in some of the larger paper companies. That of course means that even if you have a parent-affiliate relationship, you cannot count on non-arm's-length transactions to leap over that nontariff barrier that still exists between us and the United States. So I do not think we are finding much of that in the resource industry.

Mr. Neumann: No. It is more likely to occur in the processing and farther down the production process.

Mr. Tough: In the old days, those affiliates jumped over the tariff wall, set up or bought up an affiliate and said, "You supply the Canadian market, and that is it for you." There was not very much world product mandate in that.

Mr. Wardle: In fact, there are very few Canadian subsidiaries of US parent companies that are either in a product mix or in a location where they could supply only the Canadian market. If that were to happen, the plants would basically close--Weldwood at Longlac, Weldwood at Great Slave, Louisiana-Pacific at Dawson Creek. The market in Canada is, quite simply, too small.

Mr. Morin-Strom: I would like, first of all, to thank Mr. Tough for his presentation. I think he has been a lot more to the point and a lot more forceful in terms of his arguments than some of the other ministry representatives we have had here to this point.

I would like to ask about export restriction possibilities. In article 409, there is reference to restrictions not being able to reduce the proportion of total export shipments being sent to the US. Of course, there is a provision in this way in the energy sector that has been talked about. Does this agreement require Canada to give access to the United States to a proportion of our resource sector in resources such as lumber or wood resources generally?

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Mr. Tough: I hate to keep saying this, but we do not know. It may be that our expert colleagues in the Ministry of Industry, Trade and Technology have researched a lot of those more thoroughly and have some better feedback from the federal government. We do not know the answer to that.

We would have thought not. There does not seem to be an awful lot of substantive basis to expect the United States would want that kind of access to goods which are not, if you like, strategic. We knew there was a preoccupation on their part with making sure they got proportional access to our energy resources, which also gives some of us some pause, but we did not see it as extending to our paper, pulp and those sorts of things.

That is another in the list of good questions.

Mr. Morin-Strom: If we were to go into a policy, perhaps as a result of an opportunity, to export products at a better price to other countries--in particular talking resources again--to export resources to other countries or deliberately to have a policy of ensuring that we process our resources to a greater level of value added, and in order to do that we wanted to cut back the supply of those resources to the United States, whether it is our minerals or our forest products, in fact, could we be restricted from implementing some policies in those areas as a result of this agreement?

Mr. Tough: May I have Alison take a crack at that and then we can chat?

Ms. Coke: That appears to be the case from article 409(1) of the agreement. It is not exactly clear how it is going to be interpreted, but yes indeed, that article suggests we will not be able to restrict quantities, or there will be limits on our ability to restrict supply, to disrupt normal supply, whatever that may mean, and to intentionally price-discriminate.

That is something which has been added in addition to the GATT limitations, which we previously lived with, which gave us justification for quantity restrictions on the basis of foodstuffs or on the need for domestic production or shortness of supply for conservation reasons. Does that answer the question?

Mr. Morin-Strom: It certainly sounds as if we have some very legitimate sovereignty issues, similar to what has been expressed very vociferously in terms of control of our energy future here in the country in the area of controlling resources, which of course are the property of provinces under the Constitution in Canada today, or which at least predominantly on crown lands are the property of the provinces.

In terms of our lumber or forest resource, I understand there is an exemption here for logs. How does that exemption work? We know we have restrictions in Canada on the shipment of logs outside of Canada. What if we wanted to put in a policy to restrict the sale of pulp, let us say, at some point to insist that pulp be processed into paper before it is shipped rather than being shipped in the bulk form of pulp for the manufacture of paper in the United States?

Mr. Tough: I do not think it is explicit. Alison can correct me, but as I read the clauses and some summaries of that, it would seem to me that the other party would have cause to say that was not in the spirit of the agreement, that we are not infringing upon normal channels of supply. Again, the examples that have been talked about most freely have been within the energy sector. Again, I put it in the form of a question, whether, in fact, a policy that did impede the shipments of a resource in the interests of securing further processing would be interpreted, certainly by the US side, as infringing upon at least the spirit of that agreement.

None of us can put our hand on a section that says neither side will do that, but it certainly is, directionally, not the way we would have wanted to go. Again, in the case that you have your "gives" and "gets," we would have expected that what we would have come out of this with is a clause that essentially grandfathers, blesses or endorses the policies which are now in place and further policies as may be agreed between the parties on measures to encourage the further processing of resources. That is not in there.

Therefore, we are asking ourselves whether we have as much scope in the future to expand as we have had over the past decades.

Mr. Morin-Strom: Finally, I would like to ask whether you have an explanation for the positions that have been taken by the forest products industry as a whole and individual companies within the industry. I know myself I talked to representatives of some of the individual companies and they have expressed very serious reservations about the final agreement. While the industry associations have been generally supportive of the agreement, the individual companies are saying privately that they do not see what we gained out of it, particularly in the lumber field. There is extreme disappointment, of course, with the lack of any progress there. Really, there is a feeling that we got a bad deal and this agreement should not go ahead. I am sure you, Mr. Tough, and your people have talked to far more of these companies than myself.

Can you explain why the overall industry position still tends to be supportive of this agreement, despite the reservations of the individual companies?

Mr. Tough: I do not want to say the same old things that I said at the beginning of my remarks. I do not mean to be impertinent in suggesting that I know why the industry thinks the way it does. However, I would say that, like us, they would have liked this agreement to have met some of their requirements. I think they are going from that stage to, essentially, giving the benefit of the doubt to the deal. I think if I were in their shoes I would probably be inclined to do that too, although, as you mentioned, there are exceptions. There are exceptions within the forest sector. There are some very vociferous exceptions on the part of the man from Interprovincial Steel and Pipe Corp. in Regina who has been very forceful in his concern about the agreement.

I do think that if you decided you were going to give the benefit of the doubt to this agreement, you would then go back to some of the reasons I was mentioning at the beginning. It is better than nothing. We do not agree that it is better than nothing, but there may be people who say that.

Mr. Morin-Strom: You are saying the reverse.

Mr. Tough: I am saying we have lost ground.

Mr. Morin-Strom: Because we have entrenched some bad actions which have been taken against us and could be taken against us in the future.

Mr. Tough: I think we took a stab at something. I guess one can never put oneself in the shoes of the negotiators, but if you go out and you have something going and you have some shiny new car and the only thing is that the wheels keep falling off, then you get a new car. I must say when I saw Mr. Reisman on television that night when he said that there was a certain point that you could go to and no farther and that was the end of the talks, I was impressed because I guess I would have felt the same way had I been involved in those negotiations. If you are not going to get what you sought in those talks, then you had better think very seriously as to whether you want to proceed.

I do not think any redefinition of our objectives is going to persuade me that we got anything out of this that is particularly worth while.

Again, let me reiterate, I dearly hope to be wrong. I really hope those who are giving the benefit of the doubt are correct. We are a little less inclined to do so because we have to participate in the job of picking up the pieces from this deal. We are talking about several hundred jobs from softwood lumber. We are potentially talking about a few hundred more and we are talking about lost opportunity here in a region that really needs investment in the primary sector.

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Mr. Morin-Strom: I have one final follow-up question on the issue of the softwood lumber deal. As I understand it, here in Ontario we are continuing on an ongoing basis to collect approximately \$2 million a month from the federal government, which is being taken from the lumber producers of the province. There was a commitment from the government at the time of that deal to pump that money back into those lumber communities which were going to be affected. Has your ministry got access to any of that money? Can you tell us whether your ministry has any plans to do anything with it or what specifically might happen to those lumber communities?

Mr. Tough: Perhaps I could answer that in two parts. We do have a

lot of ideas about what one might do with some extra funds to help the industry not only bear the burden of the softwood lumber tax, but become stronger. As to the second part of my answer--if you agree, Mr. Chairman, that the question is somewhat outside the terms of reference of this committee--I know the member will have ample opportunity to question ministers in the House, including the Treasurer (Mr. R. F. Nixon), as his colleague did quite forcefully the other week, and we expect him to continue to do that.

Mr. Morin-Strom: So you have ideas, but you do not have any money, I take it.

Mr. Mackenzie: Which underlines very effectively the points we have been making.

Mr. Chairman: We will also be hearing from the Ontario Lumber Manufacturers Association next week. I know we have an invitation out to the forest products association, but I am not sure what the result of that was.

I also have questions from Mr. Haggerty, Mr. McCague and Mr. Neumann.

Mr. Haggerty: I have some questions to the deputy minister. You have indicated there are some 140 jobs in the forest sector in Ontario and you are concerned perhaps that there may be a shortfall in employment in that area.

Mr. Ferraro: How many jobs did you say?

Interjection: He dropped three zeros.

Mr. Ferraro: It is 140,000. You said 140. I just want to correct the record.

Mr. Haggerty: The Ontario Furniture Manufacturers Association on November 24, 1987, said: "Only a select few of the larger manufacturers in Canada are equipped to effectively compete in the export markets. Up to 5,000 Ontario furniture workers could be dislocated and quite possibly up to 10,000 in the longer term."

Has your ministry done some in-depth studies in this area as to the future outlook in jobs in the forest sector in Ontario, so that you can be perhaps more definite?

Mr. Tough: I have to say that the Ministry of Natural Resources has not done that kind of study traditionally. To the extent that those kinds of impact studies are very much to the point and very relevant, I would have expected them to have been done by both the federal government, as part of its studies when Mr. Wilson and other people did studies, and also within the province by the Ministry of Industry, Trade and Technology.

Mr. Chairman: Is that satisfactory, Mr. Haggerty?

Mr. Haggerty: I was hoping the ministry would be involved in it too. It is rather a serious matter, this free trade deal, particularly as it relates to Ontario. I thought perhaps your ministry would be involved in some studies in that area or is keeping tabs on current developments taking place in Ontario, where you feel the free trade deal already has an impact upon industry. You mentioned sawmills and, of course, there are jobs to look at.

Another area you mentioned is the GRAND Canal project. There are some

different opinions from the federal government on this matter, that the minister is responsible, but the federal minister, Mr. McMillan, maintains that "large-scale water export would only be considered in the context of the comprehensive federal water policy, which is now being developed." Would you know when that could be completed or when that report will be--

Ms. Coke: As I understand it, he announced the water policy in November 1987 and that policy has been tabled, at least at this point. We have a copy of it. I would be glad to forward that.

Mr. Haggerty: It has been tabled until after the completion of the free trade negotiations probably.

Ms. Coke: Yes, it has.

Mr. Haggerty: Then we will know what takes place after that. There are all indications that this project may fly even with the heavy expenditure that is committed or will be committed at the time of the construction of it.

The recent fall in the American dollar has been indicated by press reports as a tonic to United States steelmakers. Exports are rising. More important, domestic sales now compete strongly with foreign steel production costs in Japan and Germany and are running above those in the United States. Many companies are shaky from the past losses, but profits in 1988 will be up.

What is the impact, if the American dollar continues to fall, upon the steel manufacturing industry in Ontario? Have you done any forecasting in this area?

Mr. Tough: That question is way out of my league as the Deputy Minister of Natural Resources.

You have an intuitive sense that what governs all this is the relative value of the Canadian and the US dollar and that if we can maintain that relativity about where we are now, then we should be in pretty good shape. There has been an appreciation of our dollar against the US and that has put the squeeze on some of our resource industries. That nibbles a bit off the profit, the bottom line, of resource industries.

In terms of the steel sector in particular, I am not able to discuss that, I am sorry.

Mr. Haggerty: That same scenario would apply to the softwood lumber industry, would it not? What would our competitive edge be then? Would we be losing export opportunities then?

Mr. Wardle: It is more a question of mill net that gets affected. The mill net is in Canadian dollars, which is what the companies pay their workers, etc. In the circumstance of one company--and I will not name it--a penny change either way costs or benefits the company, depending on which way it goes, \$1 million a year. It is one of the larger companies. It is a pulp and paper company principally.

People in the lumber industry complained to us, and I am sure they have complained to some of you, about the fact that what is happening with the strengthening dollar is that, since they are selling into a commodity market, they get less back to their bottom line. But nobody really quantifies it. It will change with each company, depending on the product mix and where it is selling. We do not monitor it.

Mr. Haggerty: There is indication now that the American dollar will be dropping more than it has in the past. So you could see quite a switch.

Mr. Wardle: If the American dollar drops against European or Japanese currencies, it makes Canadian product out of Vancouver more competitive in Japan or Europe. That in turn keeps that product out of the North American market, which should improve the mill net because the price should go up.

Mr. Haggerty: You are talking about Ontario?

Mr. Wardle: Yes, or Quebec or Alberta.

It is almost like having a plate of spaghetti in front of us and we bet on which quadrant or strand will move. We each have a quadrant, and instead of one strand moving, the plate ends up on our lap.

Mr. Haggerty: Mr. Tough, you mentioned your concern about the commercial fishing in the Great Lakes. As I understand it, there is no commercial fishing on the American side in Lake Erie or Lake Michigan. How would your comments reflect upon your concern that they would be fishing over here? There is no commercial fishing in those two bodies of water that I am aware of.

Mr. Tough: Again, we have commercial fishing activity occurring on our side of the lake. We continue to permit that. As I mentioned in my initial remarks, in most cases, a large proportion of the fish we catch from those activities goes into the United States. It is a question in our minds whether the policy we now have, which is essentially to exclude US fishermen from licensing under commercial fishing on our side of the Great Lakes, would be undermined, whether our capacity to do that would be undermined, by anything in the trade agreement.

Again, I emphasize that we are not saying that it will and we are not saying it will not. We are just adding it to the list of questions which are not directly related. We realize that these are not matters of trade, necessarily, nor are they necessarily matters of investment. They are in that grey area where we have a fairly intricate system of regulation and permitting and so on. We wonder, from a sovereignty point of view, which is a broad concern, or from our narrow resource management point of view, whether the things which we are now doing, including that one, are somehow impeded, overturned or struck down by the free trade agreement. So there is an understandably long list of questions there.

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We do not think so and we do not hope so, but there is a question in there and only time will tell whether our rules will be tested under the framework of the new arrangements.

Mr. Haggerty: Of course, you could have the same scenario follow on the natural gas exploration on Lake Erie. The next thing, the Americans will be drilling in Lake Erie--some time in the near future, probably. I think we should not be able to meddle in their sovereignty rights there, in what they do on the American side.

Mr. Ferraro: Why not? They are doing it here?

Mr. Haggerty: No, not if you talk about fishing and what do you call

it, but they are talking about drilling on the American side. We tap it now. We may well have tapped the resources out there as far as natural gas goes. I do not know.

Mr. McCague: It is odd that you are at odds with some of your clients on this agreement. Had you chosen to say what they would have thought you might have said, the report would have been different. But I suppose that you were obliged to sort of go along with the government's line on this, now that you have the motion before you.

However, you make reference to things you wanted to get and what you got, or the things you wanted to have and what you got. Are we not talking about the things you wanted and the things you got?

Mr. Tough: If I could just inject a personal note here, and I mean no disrespect or affront to the member, I feel rather personally and quite deeply about these issues. I quite deliberately chose a passage from the 1984 agenda which Mr. Wilson published. I helped write that. I worked for the Department of Finance when that was written. What Mr. Wilson said in 1984 remains just as true now as it was then. If we are going to achieve growth, stability and reassurance in our resource-producing regions, we must have free access to our largest market. That is not a political statement. I think that is an economic statement and I do not say that because somebody told me to say that. I said it before and I would continue to say that.

I think we can make do with less, if that is what the honourable member is suggesting. We can make do with less. We can get through. It is going to be harder. We are going to have more layoffs and we are going to have less investment. Of course, we wanted unimpeded access or we wanted our consolation prize, but I guess I go back to the original basis for starting all of this. It was to seek an end to the kind of harassment that we were getting on resource trade from the United States. That is what it was. It was harassment. If we have not found a mechanism to get rid of that harassment, I would describe that as a fundamental, fatal flaw.

Mr. McCague: I have no doubt about the sincerity of your presentation. That was obvious as you were doing it. However, you talk on page 6 about the trauma of the softwood lumber case. Then you go on to say, "and many people wondered, what is next?" I think there is a difference certainly between what you wanted and what you got. It related truly to what you had and what you got. By that I mean it is unfortunate that we have the softwood lumber case, and you say in here that many of us wondered "What's next?"

Can you back up a little to the point we were at before the talks commenced in earnest and speculate a little as to some other actions that the American government might have taken, or the industry might have taken, had it not been for the free trade talks and the eventual agreement?

Mr. Tough: I cannot categorize things in terms of what they might have done but did not do because we were in the free trade talks. I may be misunderstanding the question.

I mentioned earlier that there are some other areas in Ontario where if you applied the same logic that the US used in the case of softwood lumber and if there was an injured party in the US--suppose the pulp and paper market went soft in the US for some reason or other--then the same logic that was applied in the case of softwood lumber is only an inch and a half away from application in the pulp and paper industry. We have the same management

arrangements; we have the same stumpage arrangements, more or less; we supply the same infrastructure; we do the same kinds of things as do all other provinces, I believe. It is the same tree, in many cases.

When we asked "What's next?" it was quite evident what could be next if it turned out badly in the US and the market softened down there. What next was quite clear to us, and it was in northern Ontario. There were other what nexts at any given point. We have some lists and I am sure the members have seen other lists. At any given time in the US there are probably dozens of complaints against us somewhere in the US congressional system, finding their way up from some senator, representative or whomever, so we felt there was a lot of what nexts in there.

Mr. McCague: To put the question in another way, given their protection, as it has been, of a year or so ago, and given that the free trade talks were going on in the year that followed, do you believe there would have been any more protectionist measures instituted by the US had it not been for the fact that these discussions were going on?

Mr. Tough: I really do not believe the fact that these talks were going on had anything to do with whether or not damage and countervail actions were proceeded with through the system.

Excuse me, I may be misunderstanding the question. In our view it is entirely the circumstances within the industry in the US marketplace that will determine whether we have actions, whether they are on our tubes from Sault Ste. Marie, softwood lumber or potash, the more recent case. That does not seem to have very much to do with it. In fact, we had a number of instances where some fairly positive discussions were going on between the US and Canada at the very highest level.

You will remember there was a very positive environment when the shakes and shingles came along. I think we naïvely had an expectation that would not happen. Then the softwood lumber came along. This is why we are apprehensive about the argument that says that if the environment can be improved, then the likelihood that those actions will come along is lessened.

I do not think the fact the talks were going on had any impact on whether there were actions in the system against us. It seemed to me it had more to do with the buoyancy of the US market, the fact that they had already got relief from a number of our exports, from the steel industry and so on. Those, I believe, were the governing factors.

Mr. McCague: Let us go at it another way. You talk about the good negotiators that you have run into in your 20 years in government service, and you as much as say that you think this was a poor deal as far as the natural resource industry is concerned. But surely we all realize that if you are negotiating a free trade deal that includes everything, the gives and gets are not necessarily within one sector but within the overall, global agreement. You have not pointed that out to us and I think it is worth pointing out.

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The other thing, simply said, is that, free trade or no free trade, if we do not have free trade of some sort--you do not have to like the agreement--there are measures that the US can take if there is no free trade deal. Maybe there are some that we can take, but I think they have the heavy hand and I think you agree with that. You have not addressed that perspective

at all. You have just looked at the agreement and said it is a poor agreement. I think you have done correctly; you were not asked to address the other issues, but maybe you would just tell us a thing or two about it now.

Mr. Tough: I find a great deal to agree with in the words of the member, and I guess I go back to the fact that, from the point of view of our clients out there, we had free trade before 1983. What we wanted to do was entrench a system that would preserve that happy arrangement, and in 1983 the "free trade" that we enjoyed in those kinds of resource products--aside from some very marginal, very small tariff impediments this way and that way--we saw those arrangements being inhibited in a way that we would describe as somewhat perverse, not well founded, not in Ontario's case.

What we said then was: "We want essentially an arrangement with the US. We can call it free trade or we can call it whatever we want. We want unimpeded access. We want the maintenance of this unimpeded access that we enjoy with the US." So we went into a situation where, in fact, as the member mentioned and I mentioned, there are gives and gets. We thought we were a get sector, though. We did not think we were a give sector.

Mr. McCague: Great Canadian. What do you think about the congressman?

Mr. Tough: He would have been happy--

Interjections.

Mr. Tough: If we had known then what we know now, we would have been quite happy with a draw. What we have come out with, I am afraid--I am sorry if the member does not believe that I feel this quite deeply; I do--I think we lost ground. I think we lost ground not only in what happened to us but in the fact that we agreed to it.

Here is an argument that I believe is an extension, if I might, of the member's statement, which says that if we did not have this deal we would be subject to the constant harassment that had prevailed in the earlier part of the decade. Therefore, that is another extension of the argument that says, "This is surely better than nothing, because if we did not have it, they would be really at us."

I say that is kidding ourselves. It is kidding ourselves in two respects. First of all, there is nothing in here that stops that, slows it down or does anything to inhibit those kinds of activities. Second, the framework for those kinds of actions has really nothing to do with an administration-to-administration agreement. What drives that system down there is the little guys, the New Mexicans, if they have a problem with their potash; or it is the guys on the west coast if they cannot sell their lumber, their plywood or whatever. That is what drives the US system, and while I am not a student of the US system, I have had enough dealings with those people on deals like the fishing agreement off the east coast, which got as far as the Congress, and then Congress decided it did not like it and it did not get ratified.

I think you have to have an understanding of the government system down there to understand how little we really have achieved. What we have is an agreement at a certain level between two administrations which differ fundamentally in a constitutional sense. We do not have the same kind of sense of satisfaction in getting an arrangement with the US government that they would have with ours. Imagine the certainty that they now enjoy having an

agreement with the Parliament of Canada in contrast to what we have to deal with in the US administration and subsequently the Congress. It is not balanced.

So I keep coming back, with due respect, to say that anything we really wanted to gain in here, and the only thing we really had to have, we have walked away without, and in that sense it is arguable that we would better have settled for what some would call nothing.

Mr. McCague: It is a delicate argument. It was not the free trade deal that did you in: it was the actions that were taken prior to the free trade deal that did you in. That is a very difficult one.

Mr. Neumann: I have two questions, the first one relating to your presentation on page 2. You said: "We have uncertainties in its potential impact upon the commercial fishing industry, uncertainties concerning water resources and tourism services." You have touched on fishing and water resources but you did not mention tourism anywhere else in your presentation. I wonder whether you would be willing to explain what you meant by uncertainties relating to tourism services.

Mr. Tough: Looking at the issue, one of the things I was concerned about--not so much in tourism services; I will ask Alison to mention that--is whether there is anything in this deal that interferes with the differentiation, if you like, between the treatment of residents and nonresidents in terms of sport fishing, of the allocation of camp sites; all those things which, I think, to a lot of people are sort of Mickey Mouse. Those are not big issues, but they go to the heart of our capacity to manage our resources in large areas of northern Ontario. We do not know whether there is anything in there. It does not look like there is anything that would impede that but, again, we really do not know. Alison, do you have anything to add?

Ms. Coke: That is exactly right. As we know, this agreement does not roll back any of our existing legislation, but the door seems to be open on a couple of chapters, particularly under investment, for example, where we promise to offer like national treatment for enterprises doing business in our territory. What does that really mean? Fishermen, for example, operating charter fishing boats are charged a slightly higher price for fishing licences than domestic charter fishing operations. That is where the uncertainty comes up; the agreement is unclear.

Mr. Neumann: With respect to all these uncertainties, what will eliminate the uncertainties? Will time clarify this, or the ongoing negotiations?

Mr. Tough: I guess a combination of things. Obviously, there will have to be some ongoing discussions on clarification. This is a very complex agreement. There has been, understandably, a focus on some of the big-type issues. Therefore, a lot of the concerns we are raising, I think it is fair to say, were probably not considered in the context of the negotiations. It is beyond human capacity to do that.

There will be a series of discussions, and we will be doing this in conjunction with our colleagues in the Ministry of Industry, Trade and Technology, some requests for clarifications. In some cases where, in fact, a clause in there does impinge on our capacity, we could expect a body of case law to develop over time. There would be some challenges of our capacity to do that on the grounds that this agreement forbids it.

That is a matter, as you say, of time sorting that out.

Mr. Neumann: I have a further question, if I may.

Mr. Chairman: All right. I was just going to interject something. I am wondering aloud whether, down the road, if and when we rationalize a lot of our manufacturing industries in accordance with the fruits of this agreement, the harassment will be the threat of the US to cancel the agreement; that is, if any further threats occur in natural resources or other industries.

Mr. Tough: I do not know whether that is something one might want to think about. I come back to my views on this. I cannot see any reason why they would want to terminate an agreement like this. I think it turns out to be quite highly favourable.

Mr. Chairman: No, but down the road. For instance, they would not have wanted to terminate the auto pact in the late 1960s, but in the 1980s there is a body of opinion in the US that does want to. Down the road, after we have succumbed to the rationalization, particularly various industries in southern Ontario, we may be at their beck and call. That is what concerns me.

Mr. Tough: I understand.

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Mr. Neumann: I am glad you mentioned that, Mr. Chairman, because my question relates to rationalization of industry. I realize this particular instance I am going to refer to relates to manufacturing, but with your background knowledge in a number of areas, I am wondering whether you could comment and help me understand an issue that appeared in our local newspaper, the Brantford Expositor, last evening, relating to Trailmobile, a manufacturer of vans, and if there is any relationship to the agreement.

The agreement permits foreign takeovers more freely than the previous arrangement. We have a situation here where a Canadian company, Trailmobile in Brantford, is purchasing a branch plant, Fruehauf. It is a Canadian purchase. It might have been triggered--we do not know--by Fruehauf saying, "We don't need our branch plant in Canada any longer."

We have a ruling from the federal government. Federal officials ruled, as part of this purchase, that Trailmobile would end up controlling too large a portion of the Canadian market and therefore action was brought under the Combines Investigation Act and it was ordered to divest itself of portions of its business.

Here is a Canadian company attempting to rationalize, to expand its base of operation, perhaps to become more competitive in the North American market, and the Canadian government brings action against this Canadian company because it would control too large a share of the Canadian market. It puzzles me, because are we not moving into a North American market rather than a Canadian market?

The Canadian Auto Workers contacted me last night. They feel there is a potential loss of 200 or 300 jobs here.

Mr. Tough: I do not know all the facts.

Mr. Neumann: You do not know the specifics.

Mr. Tough: No, I do not.--On its face, it sounds like you would want to place a heavier weight on becoming internationally competitive and you need some scale for that. I understand the combines people will take a domestic look at the thing and see whether you are suppressing competition in the Canadian marketplace. I would have thought our Canadian marketplace was open enough that you could allow for competition from outside forces, but it is not for me to speak for the combines investigation branch. It is a curious case.

Mr. Neumann: Do you see in the resource sector, in the areas that you are involved with, any problems similar to this or do you see any problem with increased foreign ownership?

Mr. Tough: No, we do not. We do not see a problem in terms of the combines aspect. We do not see any pronounced tendency for consolidation nor, I guess we would argue from our narrow perspective, would we see anything particularly ominous in consolidation because of the huge numbers in terms of the proportion of the production which is exported.

What we are seeing in the industry, I think, is rather interesting. We are getting newcomers in the industry, and those of you who have read the Woodbridge Reed report on the industry would see that is something that at least a consulting firm thinks is a good idea. We are getting some innovation and some newcomers in there at Sault Ste. Marie, the St. Marys situation, Malette Waferboard Corp. and so on. We are seeing some things which are perhaps going against the trend of consolidation but in many cases demonstrating a competitive capacity that rivals the big guys.

Mr. Neumann: I raised the matter because I found it rather strange that here we have the federal government entering into an agreement which allows foreign investment in Canada--foreign takeovers--without review and it is blocking an attempt by a Canadian company to buy an American branch operation.

We do not know what the job implications are, but just to give you a quote: "Calvin S. Goldman, director of investigation research under the Competition Act, said Monday he had feared the purchase would unduly lessen competition. He told Trailmobile he would apply to the competition tribunal for an order blocking the deal unless major changes were made."

It has created a lot of uncertainty for the employees.

Mr. Beer: Just briefly, and this really relates back to Mr. McCague's question, as one who is very much a nonexpert in this area I want to be clear that I understood, because it seemed to me there was a thrust there that was not in what you said.

In the free trade negotiations--in the middle of them, I guess it was, when the softwood lumber arose--one might have thought that, because we were in the middle and at a critical point in those discussions, that would not have gone forward the way it did. However, not only did it go forward, it was resolved to our detriment. It then became part of--enshrined in, if you will--the actual agreement.

What I understood you to say was that the sort of motivating factor there in potash--and possibly it could have been in pulp and paper--was not so much what the United States government may or may not have wished to do, but rather the response in a very straightforward political way to what was coming up from small producers, people in different parts of the country.

That brought about a result; it is in the agreement. It would be my belief from that--let us assume this agreement goes forward--that, in a sense, there is a precedent. If one is in the United States and one is arguing there is a downturn in the economy and one wants to come back to some of these issues, then what is different, and what makes it worse, is that the softwood lumber example--and one argues that, hopefully, it was something that will not be repeated--now is there and looms even larger in what might be permitted. In that sense, when we were talking about what you wanted, what you got and what we thought we had, that is one of the reasons why, in your view, with the agreement it is worse than if we had not had the agreement and we were trying to deal with some of these ongoing issues.

Is that a fair assessment of what you were saying?

Mr. Tough: I think it is. I think there is another point which perhaps I did not make as clearly as I ought to and I apologize. The essence of the US system, and the essence of our system and that of most major industrialized countries, is that there is a body of administrative practices. There is a body of law. If there is someone who believes that an injury has taken place, then under US law that has to follow a certain path. It is not a situation where the President can pick up the phone and say, "Hold everything."

There is a process and that process goes on. The only thing is that one might have hoped, naïvely, that the stuff going in at the intake might have slowed down because of the fact that there was this environment. The fact is that those things occurred when there was a very positive environment. One would have thought if there were any possibility of those atmospherics affecting the things going in, that was a classic time when you might have said: "Time out! Let us not have any more complications here for a little while. Let us let things cool down." But we had the shakes and shingles and we had the softwood lumber.

I do not mean that as a criticism of the US government. That has to proceed. Somebody has to start it and then somebody has to proceed. That all starts at the bottom of the process.

Mr. Wardle: The further point on that is that the US lumber industry timed its petition so that, as the petition worked its way through the system, the decision would be taken two weeks before the US election. Among other things, the senators and congressmen in Seattle, Washington, Idaho and parts of the US south could be seen to be supporting the action, the petition, and hopefully--on November 6, I think it was--get voted back in. It was an interesting point. It was damned fine politics and it worked.

Mr. Beer: The agreement that we now have does not mean that those things are not going to happen again at all. That is not going to affect that potential thrust.

Mr. Wardle: In spades.

Mr. Tough: My concern is our misgivings with that whole process and the lack of some kind of an oversighted dispute-settling mechanism or some better way of doing things, the fact that we would sign an agreement without some kind of remedial action. It seems to me that if you have a chance at something and you do not grab it, this is the last call for a long time, in my view. We are going to be a long time, I think, at getting amendments in the US system. I cannot think of very much that we have left to put on the table that

would-buy us the kinds of things we want in the resource sector. I think that is it now, and that is the basis for a large measure of our disappointment.

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Mr. Wardle: A company called Domtar, which is some 47 per cent owned by the Quebec government, will shortly run at capacity a new fine paper mill at Windsor, Quebec. This will come through at 1,000 tonnes per day, making fine paper like that. The cost of the mill was \$1.2 billion. I do not have the details, but a good chunk of that \$1.2 billion came out of Ottawa and Quebec City.

I ask myself the question, if Domtar is successful in getting market penetration in the northeastern corner of the US with its fine papers and disrupts an existing US producer or two, and I put about 11 or 12 months on it, might we have a repeat of the softwood lumber case directed at Domtar on petition from somebody in Penobscot, Maine, or wherever the fine paper mills are there? It might well happen.

Mr. Mackenzie: Forgive me, but I think that ties in to your earlier comment about the politics of it. Here you have the weight of the Canadian Parliament passing law that individuals cannot deal with that way. We may have some provisions in terms of dumping and so on, but down there anybody can institute a countervail action. As long as we do not get the relief on that, we have absolutely nothing.

Mr. Beer: One of the things, again, that I take from your testimony today, having seen that as being significant, but you have made it even clearer in terms of the enshrining of that agreement, is what we have sort of admitted, which could be very dangerous for us over the next few years.

Mr. Fleet: Dealing first of all with the memorandum of understanding on softwood lumber that was signed by the federal government at the end of 1986, if the government of Canada chose to terminate that agreement, would the parties involved in the American trade process, their complaint process at that time, be placed in the same position that they were before that memorandum was signed or would they be placed at square one?

Mr. Wardle: If the US decides to terminate the arrangement, it will--

Mr. Fleet: I am saying if Canada decides to terminate.

Mr. Wardle: If Canada decided to terminate it, the US will say OK, and at midnight the same day there will be initiated an action under section 301 of the US trade law of 1974 that will put on a 15 per cent duty which will be collected by the US Treasury.

Mr. Fleet: Did they have that power in 1986?

Mr. Wardle: They had that power and they used that power from December 31, 1986, to midnight, January 8, 1987, at which time the export tax came on and the 301 came off.

Mr. Tough: It is suspended, if you like, hanging over us.

Mr. Wardle: Yes, it is like a sword.

Mr. Fleet: Assuming again that Canada were to terminate the memorandum of understanding, is there any way that Canada could get that before GATT?

Mr. Wardle: I cannot quite recall the phrasing of some of the side letters that went along with that.

Mr. Fleet: I appreciate that I am asking the question when you do not have the documentation in front of you.

Mr. Wardle: I have a filing cabinet full of documentation on this.

Mr. Fleet: Yes, but you do not have it with you.

Mr. Wardle: My recollection is that there was a side letter to the agreement, the memorandum of understanding, in which Canada said, "We will not take it to the GATT." Then, about January 21, at the urging of Ontario and Alberta, Ottawa went after Washington, and the Department of Commerce issued a statement to the effect that, given the fact that the memorandum of understanding is in place, the petition is withdrawn by the petitioner and the preliminary decision of October 16 is basically withdrawn. I cannot quite remember the precise wording, but basically it said it is withdrawn and it is without precedent, it cannot be used as a precedent, which, I think, with 35 cents will get you a cup a coffee downstairs.

Mr. Fleet: OK. I take it that the effect of grandfathering in this agreement constitutes a surrender of, if you like, sovereign authority on the part of Canada. If you take a matter to GATT that they could have proceeded with before this agreement but even after they signed the memorandum, signing the memorandum they could have walked away from. Now they cannot even do that.

Mr. Wardle: Part of the memorandum is that we withdrew our request for a GATT panel, which was due to report in about five weeks. The panel was set up. We had supplied all the information to it. They had, in confidence, given the first review of the information to get us to affirm its correctness. The report would have come out in a matter of weeks. Ottawa requested cancellation of the GATT panel.

Mr. Fleet: Now, on a separate issue, aside from the brief mention in the final document, the final trade agreement, referring to softwood lumber and referring to plywood, there is no section that specifically sets out forestry, fisheries or the environment.

Mr. Wardle: No.

Mr. Fleet: So I take it the comments that were made earlier by Mr. Tough about potentially being obligated to permit investment or involvement by US commercial fishermen in our industry is a result of provisions such as article 1602, called "National Treatment," under that chapter on investment.

Mr. Wardle: That is right.

Mr. Fleet: The gist of that section is that there are two phrases used, a no-less-favourable clause and a most-favourable treatment, that kind of language, which essentially equates an American national interest and a Canadian national interest.

Mr. Wardle: That is right.

Mr. Fleet: There is also a comment made in your remarks about concern over a more limited ability to regulate the harvested fish in our own waters with special fees. I am wondering if one of you could direct me to the provisions that you are concerned about, or the application of them.

Mr. Tough: Again, I guess that falls under that general rubric. If one reads some of those clauses, one carries away the impression that we are to give no less favourable treatment to, let us say, US fishermen in Lake-of-the-Woods than we do to our own. We do not do that now. We have special provisions for US fishermen. We charge them higher fees than we do Canadian fishermen. We have done that for a long time, and there is a question in our minds as to whether anything in those kinds of clauses does anything to undermine our capacity to do that.

Ms. Coke: That is exactly right, and the uncertainty is that it is even less clear when you start reading things under the border measures section, for example, where again we promise proportional access, which--

Mr. Fleet: Which clause is that?

Ms. Coke: Under paragraph 409.1, under border measures, where indeed the countries have agreed that proportional access will be ensured, we will not charge higher prices and there will be no disruption of supply. Of course, nothing restricts our ability to deal with consumers and to differentiate among consumers. In fact, all our existing legislation still stands. The question is, could these clauses be used to open the door to claims? Whether the lawyers or officials who make up the panels which resolve these disputes would indeed say, "No, that was not the intent of the agreement," the question, when we read it through, was that perhaps this opens the door to interests in the US to raise claims under this agreement, such as the sport fishing and commercial fishing interests in the Great Lakes and some of our other smaller lakes.

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Mr. Fleet: Is it fair to say that the problem may have arisen for no other reason than that the Canadian negotiators apparently failed to consider complete sectors of our economy?

Mr. Tough: To the extent that there is a criticism implied in your question, I would argue that it was virtually impossible; in that kind of hothouse environment and under that time frame, they could not have thought about our fisheries regulations and so on. We feel they may have inadvertently not given a close look to some of these things, and that always happens. What we will have is an emerging body of case law. In time, presumably somebody will challenge us. There have been challenges in the past on other grounds. They will challenge us and we will go to court, sort of like the charter. You really do not know what you have until you find out what the case law is.

Mr. Mackenzie: We might not want them to deal with it. They were dealing with that congressman from Minnesota we talked to.

Mr. Chairman: We lost a vote on the softwood lumber dispute simply because of our fishing laws on Lake-of-the-Woods.

Mr. Mackenzie: Yes. Lake-of-the-Woods was his argument.

Mr. Tough: Was that a give or a get?

Mr. Chairman: That was a give.

Mr. Fleet: Americans get what we give. I take it, in any event, they were not thinking about our industries when they were trading them away in the last three hours of the negotiations, but that is another issue to some extent.

Mr. Chairman: Before you move on, Mr. Fleet, the American law forces them to do that sectoral analysis, some of which is ongoing now, before their Congress finally approves the agreement, even though we have finished our work, in a sense.

Mr. Fleet: Is it fair to say that the gist of this agreement allows American access to markets in, it would appear, not simply fishing or forestry, in a way that impedes our ability to regulate our environment?

Mr. Tough: If you would allow a slight rephrasing of that, in terms of managing the resources and in that way protect the environment, if you include within a definition of environment, for example, the things that live in the lake, we would say, yes, there is a question. We do not know for sure at all. We would be quite concerned if it indeed proved to be the case that we could not regulate a fishery and we saw the fishery dissipated because we could not regulate it. Again, I just keep emphasizing that those are questions. It could well be that in the next little while we get reassurance on those.

Mr. Fleet: I just note that there is nothing on the environment. There is no statement of principle about dealing with the environment. There is no statement of principle about the right to protect the environment, even if it impedes a short-term economic interest or activity, or upsets a current balance or disturbs what is normal trade, which is a phrase that seems to pop up all over the agreement. Is that a fair statement?

Ms. Coke: The best advice we can get, that I have been able to get, from our lawyers is that our existing regulations regarding our environment, safety, security and environmental regulation, stand. But what happens as a result of this agreement is that in those clauses I am suggesting, the door seems to be open to claims from the United States through this agreement to perhaps question some of the regulatory legislation we have in place.

Mr. Neumann: What about future regulations?

Mr. Tough: That is another question.

Mr. Fleet: For instance, if the Ontario government were to determine that a continuation of the present rate of economic activity would deplete a resource for any number of environmental reasons and that we had to cut back, I take it that, at the very least, we certainly are not allowed to cut back in favour of Canadians. The question is whether we are allowed to cut back at all.

Mr. Tough: We would take the view that on resource conservation grounds, whether natural gas or trees or whatever, we retain the right to manage our resources in that way, whether it is Alberta rationing its oil or whether it is the surplus test for hydro or things like that. We would obviously continue to maintain that those are ways of doing business that ought not to be touched. Whether, in fact, that stands in all cases is something we just do not know.

Mr. Fleet: In the area of energy--and I do not mean to drag you in

an area you may not be as intimately aware of as forestry or fisheries--it expressly says they are entitled to a proportional share. It would appear that, even in a time of national shortage in Canada, we are obliged to give it--or sell it, at least--to the Americans even if we desperately need it here. The issue now, I suppose, is only whether that kind of problem may exist in every other environmentally related industrial sector or economic sector.

Mr. Tough: We think those are good questions. We would echo them.

Mr. Chairman: We shall ponder them.

Mr. Fleet: This is not designed to make anybody rest any easier at night, is it?

Mr. Chairman: We appreciate your bearing with us over the course of two hours when we really asked you to come for one, but your presentation was excellent. I am sure I speak for everyone here when I say that. Frankly, it was not what the chairman was expecting from your ministry. It is simply something that we obviously must pursue further.

Mr. Tough: Thank you very much, Mr. Chairman.

Mr. Chairman: In that regard, just a few housekeeping notes. I think the matter of this article from the Expositor, we will file as an exhibit so that it goes with the text of the Hansard.

The presentation we have just heard begs, in the chair's view, fairly extensive travel within Ontario at some stage or another to see what the views are in this province. Mr. Morin-Strom would have known, but I was not aware of the concerns and oppositions that exist, for instance, in northern Ontario. I am asking members of the committee to consider an agenda of that sort.

We did place an advertisement in newspapers across the province which has not yet elicited very much response from outside of Toronto, although the wording of that newspaper advertisement was somewhat tentative in that it suggested that if numbers permitted we would go elsewhere. I think if we decided to do some travelling in the province, it would be with a view to doing some advance activity in the community we went into to make labour councils, chambers of commerce, etc. aware of our coming. I rather imagine there would be a response as a result of that.

Without particularly asking for a response, perhaps some of you can think about that and you may wish to discuss it in some detail, including thoughts about where we should be going. Travelling obviously would have to occur some time after the middle of March, because we are fairly booked up until then.

There is no further business.

Mr. Morin-Strom: Just a couple of points on the travel. I think travel is a good idea, but we have a schedule that makes it very difficult. My understanding is that we have very little time available to us before the end of March, given the schedule we have. Maybe there is one week late in March when there is some flexibility. But I do not know where we are going to find the time unless we drop the Treasury review in late February when we have two week slotted. I do not know whether the committee wants to do that. Anyway, we should discuss that.

There were several ministries which were supposed to be here today and which are not. I assume they are going to be rescheduled?

Mr. Chairman: Yes. With regard to the Ministry of Consumer and Commercial Relations, Miss Gibbons just arrived from out of the country and she is leaving again, but hopefully we can get her the week of February 1.

With regard to the Ministry of Northern Development, I guess there was a misunderstanding and it is going to be scheduled shortly.

Mr. Morin-Strom: I would also like to make a request that we also consider asking for representation from the Ministry of Transportation. I see on our agenda that we are having representation from the Ontario Trucking Association next week or early the week following. We know they have quite a strong position on what they perceive as the province opening up the trucking industry to free trade, virtually unilaterally. I think it would be a benefit to have the point of view of the Ministry of Transportation as to why it is doing that and how that relates to free trade in general.

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We have had representation previously from the trucking association expressing its strong concerns about it. On the surface, the actions by the ministry's bills that are before the House seem to be contradictory with the overall government position. I think it would be helpful to have the opportunity for them to explain their position on what the benefits and liabilities might be in both bills.

Mr. Neumann: Are those bills being sent to committee?

Mr. Morin-Strom: Those committees have not gone through second reading.

Mr. Chairman: I think it is just first reading, is it not?

Mr. Morin-Strom: They have just had first reading, so they are not in the process of going to committee yet.

There was at one point a transportation annex to the agreement as well which has been taken off. I would like to know exactly what this agreement might mean in terms of the transportation sector and trade in that very important service centre of our economy, not just trucking but in other areas of transportation as well.

Mr. Chairman: Yes. I take it what you are saying is that this is one area that ministry would be concerned about. I am not aware of any other that would be a concern to them in so far as free trade is concerned.

Mr. Morin-Strom: I do not know if there may be in terms of access to airlines, for example.

Mr. Haggerty: I do not know if it is necessary to have the ministry before the committee. If we are going to have the trucking industry here, we should be able to get ample information from the trucking industry. Then you would have the chance to debate that in the House in second reading. You may be armed with additional ammunition that may persuade the minister one way or the other.

The other matter is, you are talking about maybe travelling to the northern communities. My suggestion would be that, due to the condensed time limit of the committee and so on, perhaps you should be splitting up if you are going to travel north and half of the group could go to different communities, such as Timmins, Sault Ste. Marie, Sudbury or Thunder Bay.

Mr. Chairman: Yes, that is an idea.

Mr. Haggerty: Or you can take in Timmins, North Bay and--

Mr. Chairman: That makes sense, yes.

Mr. Haggerty: If you split it up a little bit, you can cover more ground and probably still get the information we are looking for.

Mr. Chairman: All right, to put on Mr. Morin-Strom's suggestion--

Mr. Morin-Strom: I do not think that is a principle the opposition parties would be able to live with. Certainly, our party would not be able to live with splitting up the committee. I think it has been suggested in the past that partial committees go and hold hearings. The position in the past has been that everyone in the committee should have the right to attend all hearings that take place in the course of committees.

Mr. Haggerty: If you are saying you are pressured for time, then you may not take the time to go there.

Mr. Morin-Strom: No, I do not want to leave the impression that there is agreement with that suggestion.

Mr. Chairman: I am hearing two different discussions. First of all, on the trucking matter you are suggesting, Mr. Haggerty, it should suffice to hear from the trucking industry and then the ministry would answer through its bill later.

Mr. Haggerty: That is right. You can get the debate in the House without taking the time of the committee when we are pressed for time.

Mr. Neumann: It is not directly related to the--

Mr. Chairman: No, it is just one particular aspect that particular ministry has concerns with.

Mr. Haggerty: But it deals with deregulation, and deregulation means you are going to have a flood of American vehicles on our roads here.

Mr. Chairman: It may be that it is dealing with--

Mr. Fleet: Reregulation.

Mr. Morin-Strom: That is right. Let us hear their explanation of it.

Mr. Chairman: Yes, except that their explanation will perhaps have less to do with generic free trade than specific concerns they have with the regulation as it presently exists.

Mr. Haggerty: It may come into the picture, I do not know.

Mr. Chairman: I am in the committee's hands if you want to hear from them.

Mr. Haggerty: You mean from the trucking industry? Oh, I would hear from the trucking industry.

Mr. Chairman: We are hearing from the trucking industry, but no doubt its presentation will gear itself mainly to that specific bill.

Mr. Haggerty: That is part of the free trade, though, is it not?

Mr. Beer: This is really with respect to another ministry. I cannot recall and I do not have my schedule here, but was the Ministry of the Environment also going to be invited.?

Mr. Chairman: No, we have not invited them.

Mr. Beer: That was the only other one that came to mind in terms of some of the questions that Mr. Neumann and Mr. Fleet asked. I know the minister has been very concerned about different aspects. I do not know whether you want to discuss that and the transportation one with your subcommittee and come back--perhaps see how time and various things go--but there might be some merit in doing that.

Mr. Chairman: Is that sufficient, Mr. Morin-Strom?

Mr. Morin-Strom: Yes.

Mr. Chairman: OK, we will do that.

Tomorrow we will deal with the Ministry of Energy at 10 o'clock. Then we have, at the moment, the Ministry of Financial Institutions at two, the Ministry of Labour at three, the Ministry of Skills Development at four. The 11 o'clock slot is empty and we are trying to get one of the afternoon ministries to move into the morning slot.

Mr. Haggerty: We are not sitting on Friday, are we?

Mr. Chairman: We will have Friday clear.

The committee adjourned at 4:17 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

THURSDAY, JANUARY 21, 1988

Morning Sitting



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Beer, Charles (York North L) for Mr. J. B. Nixon

Sterling, Norman W. (Carleton PC) for Mr. Villeneuve

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Energy:

MacOdrum, I. Bruce, Assistant Deputy Minister, Policy and Planning Division

Jennings, Richard, Policy Adviser, Energy Forecasts

LEGISLATIVE ASSEMBLY OF ONTARIO
STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, January 21, 1988

The committee met at 10:07 a.m. in room 151.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: Let us start our session this morning. Supplementary to the free trade agreement are these two documents, the tariff schedules, which make terrific coffee table books. It has been suggested that one be made available for each caucus. Perhaps they will be distributed to the whips and they can distribute them to the caucuses.

Last night I was in Trenton talking to the Trenton and District Business and Professional Women's Club. They were very concerned about energy and free trade. We have with us today Bruce MacOdrum, Assistant Deputy Minister of Energy, policy and planning division. The deputy minister, Mr. Crosbie, was here earlier this morning. As you know, the minister has been ill. He is back now, and Mr. Crosbie begged permission to exempt himself and be with the minister this morning to do some briefing. On your behalf, I indicated that was quite understandable. With Mr. MacOdrum is Richard Jennings, policy adviser, energy forecasts, economics and forecasts section.

This is a subject which in the course of the negotiations did not receive as much attention as it might have, and there may be some debate as to why it did not. We are looking forward with great anticipation to what you have to say.

Mr. MacOdrum: Thank you very much. I am very pleased to have this opportunity to discuss the Ministry of Energy's views on the energy provisions of the free trade agreement. I believe we have distributed through the clerk a text of our comments this morning. We also have some slides, really to assist the members with respect to the organization of the material, though I can assure the committee that all of the material that is on the slides is also in the text. The text is really just to be a guide to the organization of the material that is being presented.

Mr. Chairman: Would you like to have the lights doused?

Mr. MacOdrum: Yes.

Mr. Chairman: I might mention to members of the committee that while the slides are being shown, if you interrupt and ask questions, you will not be shown on television. It would be much preferable politically that you wait and hold your questions until after.

Mr. MacOdrum: I might say that I will be making the first part of the presentation and then Mr. Jennings will be making the second part. Mr. Jennings has been the principal analyst and adviser working within the ministry on the free trade agreement. He is in our economics and forecasts section. Also with us, beside the slide projector, is Eric Adams, who is from our economics and forecasts section.

Our presentation is structured into four sections. First, I will outline our concerns about the energy provisions of the agreement. Second, I will summarize the energy chapter and discuss the provisions in more detail. Third, I would like talk about the overall impact of the energy provisions. Fourth, Mr. Jennings will complete the presentation with a brief discussion of the effects the agreement may have on the individual energy sectors: natural gas, oil, electricity and the other fuels. Then we would be pleased to answer any questions the committee may have.

The Ministry of Energy has five broad concerns about the energy chapter of the agreement, and I want to briefly outline those now.

One of our most serious concerns is that the energy provisions of the free trade agreement will severely erode Canada's ability to implement an independent energy policy. For example, the agreement will impair Canada's ability to operate an effective and an independent energy pricing policy.

Second, while this policy to move towards more market forces is consistent with the current federal energy policy of deregulation of domestic and export energy markets, the agreement could bind future Canadian governments to these policies, regardless of changes in market conditions.

This really is a major concern. We are limiting our ability to adjust to the changed international and the changed domestic environment. Canada has been going in the directions of a more market-based system, in part from our current domestic supply-demand situation with oil and gas and also because of the depressed situation of the oil- and gas-producing industry. Both of these are--we certainly hope--temporary circumstances. When these temporary circumstances have changed, Canada will be locked into a policy that was based on those circumstances unless we are prepared to terminate the whole free trade agreement.

Our third concern is that the security of Canadian energy supply is also threatened by this agreement. The Canadian government's ability to ensure long-term security of energy supply for Canadians will be greatly reduced. In the event of a supply shortage or a need to conserve finite resources, Canada would be required to provide the United States with proportional access to our diminished energy supplies.

Our fourth area of concern centres on the fact that Canadian access to the US market will improve only marginally under this agreement. Except in the case of uranium, no specific US actions to improve market access are promised. Scope continues to exist for protectionist actions by US energy-producing interests and regulatory authorities in the United States.

Uncertainty about the agreement's impact on the operations of provincial electric utilities is also a cause for concern. We believe the agreement does open up an additional avenue under which the operations of these utilities could be challenged in the United States.

This agreement dictates that Canada will gain very little through the energy provision. In fact, it appears that Canada is going to have to give up a lot, particularly in terms of its ability to ensure security of supply.

It is worth noting that Canada has a comparative advantage in energy resources, which will ensure access for Canadian producers to the US market as

market conditions begin to tighten. We believe that Canadian access to US markets is assured with or without the free trade agreement between the two countries.

I would now like to summarize briefly the energy provisions.

The energy chapter of the agreement affirms the rights and obligations of the parties, the Canadian federal government and the US federal government, under the General Agreement on Tariffs and Trade with respect to restrictions on the bilateral trade in energy goods. This agreement limits the circumstances under which quantitative restrictions on energy exports can be imposed.

Restrictions can be introduced to conserve a finite resource, to cope with conditions of local or general short supply or to deal with a situation created by the imposition of price control. These are basically the GATT terms. In addition, the agreement allows for restrictions based on defence-related considerations.

But the agreement goes further than the GATT provisions by requiring that even where export restrictions are permitted, the importing party must be allowed proportional access to the supply. This access is based on the ratio of exports to supply over the previous 36-month period, unless a more representative period can be agreed on by the two parties.

Supply includes, for the purposes of proportional access tests, domestic production, domestic inventory--but not including government stockpiles--and imports, if the parties agree that is appropriate. Obligations to share oil during a shortage, under the international energy program, take precedence over the requirements of the free trade agreement.

Export taxes can be levied only if the tax is also applied to domestic customers. This does not prohibit export prices from rising above domestic prices as a result of volume restrictions imposed for the allowed reasons.

Consultations on regulatory actions can be required if either Canada or the US considers that the energy regulatory actions of the other, at any level of government, are inconsistent with the principles of the agreement.

Incentives for resource development are allowed, covering existing and future incentives for oil and gas exploration and development. This, however, does not make such incentive programs exempt from the US countervail actions.

National security grounds for restricting energy exports and imports are narrowly defined to include only defense-related matters.

The National Energy Board regulation of exports has been modified. The administration of surplus tests is allowed, but their use must be consistent with the other articles dealing with quantitative restrictions and proportional access. Electricity export applications can no longer be turned down on the grounds that the export price is materially less than the least-cost alternative supply in the export market. It is going to be very crucial to see the implementing legislation which may amend the National Energy Board Act to measure the full import of these changes.

Uranium trade restrictions have been lifted by both sides. Canada will be exempted from any US restriction on the enrichment of foreign uranium, and the US will be exempted from Canadian uranium upgrading policy.

The energy chapter also contains provisions allowing limited exports of Alaskan crude oil to Canada and dealing with the dispute between B.C. Hydro and the Bonneville Power Administration over transmission access.

Other articles, outside the energy chapter, could also affect energy policy. The public monopolies article refers to activities of newly established monopolies, and therefore does not appear to apply to existing ones, such as Ontario Hydro.

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However, the broad nullification and impairment article, article 2011, could be used to challenge the policies of provincial electric utilities, and the extent of obligations article, article 103, requires the federal government to take all necessary measures to ensure provincial compliance with the agreement.

In the agreement, current Canadian oil and gas investment policy is grandfathered. This policy prohibits the direct takeover of healthy oil and gas companies worth more than \$5 million and the indirect takeover of such companies worth more than \$50 million. The policy also requires that development on Canada lands be 50 per cent Canadian owned.

I want to briefly put these energy provisions into the context of the overall impact on energy trade.

Canadian energy exports to the United States were worth over \$9 billion in 1986. Some of this trade was affected or threatened by US regulatory and protectionist actions.

The free trade agreement does provide some benefits to Canada in the energy area. For example, Canada can require consultation on regulatory changes made by any level of government if they are believed to be contrary to the spirit of the agreement; quantitative restrictions by the US on energy imports are prohibited under most circumstances; and imports on national security grounds can only be introduced on energy goods for narrowly defined defence-related reasons. Also, Canada would be exempt from a US oil import levy; Canada would be exempted from any US restriction on the enrichment of foreign uranium; and Ontario imports of oil products and natural gas from the United States would be more secure. We do import a very limited quantity of US oil and gas, and the imports do have the value of making our market more competitive.

Unfortunately, these benefits are countered and diminished by the detrimental effects the agreement will have on Canadian energy trade. Let me review these detrimental effects.

First, it does not prevent US interests from launching countervail action against the import of any energy good that is alleged to be subsidized. Although any decision to impose countervailing duties could be appealed to a binational panel, this does not reduce the exposure to US trade remedy law. In addition, the proposed binational panel does not represent a significant improvement, in our view, on the present mechanism of appeal in the US courts.

Regulatory decisions in the past in the United States have been harmful to Canadian energy exporters. While the requirement to consult is beneficial, it does not ensure that US regulatory actions unfavourable to Canadian interests would be altered.

Second, Canada has given up some of its options for implementing an effective price stabilization program. Canada will be able to curtail exports, but only to a much more limited extent than in the past. Also, Canada's ability to finance such a program is very restricted by the agreement.

Third, the free trade agreement will impair Canada's ability to ensure security of energy supply for Canadians. While the energy surplus test could still be administered for monitoring purposes, export licence applications could only be turned down under very limited circumstances, and the importing party would have to be allowed proportional access to the diminished supply. This proportional access provision greatly reduces Canada's ability to ensure that Canadian energy needs can be met.

Under this provision, exports could not be phased out to ensure that Canadian requirements have priority; the US, as a whole, will be assured access to purchase their traditional proportion of Canadian supply under market conditions, regardless of contracts, existing export licences, relative size of markets or the impact on Canadian citizens; under certain circumstances the National Energy Board could be required to issue export licences, despite an emerging energy shortfall; as Canadian natural gas and electricity serves virtually all of the Canadian market and only a small percentage of the US market, the relative impact of a shortfall will be much higher on the Canadian market; and provincial control over resources could allow energy-producing provinces to ensure that their own customers are supplied. In other words, energy-consuming provinces could be particularly hard hit by any shortfall.

In general, the agreement is not intended to interfere with contracts freely negotiated between willing buyers and willing sellers. Instead, it is intended to prohibit the governments from setting, directing or interfering with pricing. But it is not clear how this general principle will apply to the activities of government-owned monopolies, such as the provincial electric utilities. These monopolies may establish their own rates, but their overall rate principles are usually set out in provincial statutes.

The spirit of the agreement runs counter to certain powers the provinces are able to exercise over their natural resources and electricity, as was provided in section 92a of the Constitution Act. Provinces can give priority to local customers in the event of short supply and they have refused to issue removal permits for natural gas from time to time--and from time to time is currently. While the provinces are not specifically bound by the agreement, the federal government is obligated to take all necessary measures to ensure observance by provincial governments.

The provisions of the free trade agreement will have important implications for trade in each major energy fuel. I am now going to ask Rick Jennings to discuss the possible effects of these provisions on trade in natural gas, oil, electricity and other energy forms.

Mr. Jennings: As Mr. MacOdrum mentioned, I will relate the energy provisions of the agreement to our major energy forms. I will begin by giving a brief status report on each energy form, discuss the export regulations applying to each and then talk about the potential impact the agreement could have on trade in these energy forms.

To begin with natural gas and start off by discussing the current situation, in 1987 about one third of Canada's marketable production of

natural gas was exported. This amounted to about five per cent of US consumption and was worth approximately \$2.5 billion.

Gas exports could rise quickly from this level, as gas exports under long-term contracts are currently running at only about half of already licensed levels. The National Energy Board's October 1986 report, Supply and Demand for Canadian Energy 1985 to 2005, projected that Canadian natural gas demand could exceed deliverability between 1998 and 2002, even if no further exports are allowed beyond those already authorized.

Export regulation: The federal government has significantly reduced the regulation of natural gas exports in recent years. The policy of ensuring that reasonably foreseeable needs of Canadians will be met before allowing exports and the requirement that the export price not be lower than that available to Canadians are retained.

However, formula-based surplus tests and price tests prior to the approval of export licences have been abandoned. These tests have been replaced with a market-based approach which relies on commercial contracts to protect Canadian consumers and after-the-fact monitoring of gas export prices.

Impact of the free trade agreement: This policy may be appropriate under current circumstances, but the free trade agreement will bind the Canadian government to this policy regardless of changing market conditions.

The circumstances under which export licences could be refused will be very limited. Under the proportional access provision, Canada will be unable to protect all Canadian customer needs should a shortage occur.

Given that the Canadian ratio of reserves to annual consumption is five to six times the US ratio and that US imports are expected to increase, it is likely that Canadian exporters will have secure access to the US market in the long term, regardless of the existence of a free trade agreement.

The proportional access provision: The way this provision would work can probably best be illustrated by an example. By the mid-1990s, Canada could be producing about four trillion cubic feet of natural gas annually and about half of this could be exported to the United States. At this point, Canadian gas would account for about 12 per cent of US consumption.

If Canadian production subsequently declined, the agreement would allow export restrictions to be introduced. But these restrictions could not in themselves reduce US access to Canadian gas below the proportion that US imports had taken of Canadian supply over the previous three-year period. In the case of this example, that would be 50 per cent.

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Thus, a 10 per cent decline in Canadian production would lead to a drop of gas availability of about 0.4 trillion cubic feet, and given that exports had accounted for half the supply previous to that, that shortfall would have to be shared equally in the domestic and export markets. This would represent a 10 per cent decline in gas availability to the Canadian market, but only a one per cent shortfall for the much larger US market.

If a significant proportion of US imports over the previous three-year period had been spot sales or under long-term expiring contracts, the National

Energy Board could be required to license new exports to ensure that traditional access was being allowed, even while domestic production was falling. If the producing provinces were able to continue to protect local consumers, then the decline in availability felt by the consuming provinces would be particularly severe.

Alternatively, the federal government could simply allow market forces to work instead of imposing any restrictions. Because the consuming provinces have virtually no access to other supplies of natural gas, they might have to pay much higher prices than US gas consumers to ensure access to gas.

I will now turn to a discussion on oil.

The current situation: Trade in crude oil and oil products between Canada and the US is currently free, except for some relatively minor US tariffs. In 1987, almost 40 per cent of Canadian crude oil production was exported. Just over half of this was heavy crude, which cannot be refined in most Canadian refineries.

Export regulation: In contrast to the 1970s and early 1980s, short-term exports of crude oil are not regulated. This accounts for the vast majority of crude oil sales. Nevertheless, because of the short-term nature of these exports, they could be phased out in one or two years if market conditions changed.

Impact of the free trade agreement: The agreement would prevent the phasing out of light crude exports, as was done in the 1970s. It would restrict the federal government's ability to ensure security of oil supply, both over the long term and in a short-term crisis situation. In exchange for these concessions, Canada is to be exempted from any imported crude oil levy imposed by the US and from other import restrictions.

While this exemption is welcome, it is not clear how access to the export market would be prorated among producers in the event the US did impose an import levy. It is also uncertain whether quantitative restrictions on exports would be effective in ensuring that Ontario refiners have access to domestic crude at the lower international price.

But even without the agreement it is likely that Canada's greater reserves-to-production ratio, declining US production and concerns about overdependence on oil supplies from the politically unstable Middle East will ensure that Canadian oil has access to the US market in the long term.

Once again, I would like to illustrate the proportional access provision by outlining a possible scenario. By the mid-1990s, Canada is expected to be a net importer of oil. Declining production from western conventional fields is expected to lead to a situation where imports to the Atlantic provinces, Montreal and possibly Ontario will exceed exports to the US. Under the agreement, exports could be curtailed in the event of a decline in Canadian production or if a shortfall of imports occurred. The table that appears in the text here illustrates the current situation and a possible future scenario. If domestic production subsequently declined, then quantitative restrictions on exports could be imposed, as long as traditional access to supply was maintained.

The scenario I am referring to in the 1990s is the second column on that table, which is Canadian production of about 1.4 million barrels a day,

exports of about 600,000 barrels a day and imports of 600,000 barrels a day. In this example, exports would be 43 per cent of domestic production by the 1990s. Because of the constraints of the proportional access provision, if domestic production fell by 100,000 barrels a day, government restrictions could reduce exports by only 40,000 barrels a day.

If a shortfall of imports occurred, Canada could argue that the appropriate measure of supply should include imports. If imports fell by 100,000 barrels a day, total supply--in this case, being production plus inventory plus imports--would fall from 2 million barrels a day to 1.9 million barrels a day. Exports which had accounted for 30 per cent of this broader definition of supply before the shortfall could only be reduced by government restrictions by 30,000 barrels a day.

As an alternative, the federal government could allow market forces to work. As Ontario refiners have limited access to alternative sources of crude oil, they might, under certain circumstances, have to pay more for crude than either US or eastern Canadian refiners. Consequently, Ontario refiners would have a difficult time competing with other refiners who have lower-cost feedstock.

The energy provisions of this agreement will also have significant ramifications for electricity.

The current situation: Canadian electricity exports to the United States in 1987 were in excess of \$1 billion. Exports accounted for almost 10 per cent of Canadian production and met one per cent to two per cent of US consumption. These exports are expected to greatly increase in the future. On the US side, environmental, regulatory and financial obstacles to building new domestic generating stations and transmission facilities will make Canadian exports attractive. On the Canadian side, Canada has vast hydroelectric resources which can be developed at lower cost than new US generation. Quebec's recent announcement of a 20-year export sale to New York is an example of what can be expected.

Export regulation: The National Energy Board released a report in July 1987 which discusses ways of replacing the present regulation of electricity exports. The final decision on changes has not yet been made by the Minister of Energy, Mines and Resources Canada.

Currently, the National Energy Board conducts three price tests for electricity exports. These tests ensure: (1) that the price recovers costs incurred in Canada; (2) that the price is not below that available to other Canadians; and (3) that the price is not materially below that of alternative fuels in the export market.

In addition, the NEB requires that a proposed export sale must first be offered to other Canadian utilities under the same terms and conditions in order to demonstrate that it is surplus to Canadian needs.

Impact of the free trade agreement: The agreement eliminates this third price test for electricity exports. However, this test would probably have been eliminated anyway under the review of electricity export regulation.

The first-offer mechanism is not mentioned, but it is possible that it may have to be modified to be in line with other provisions of the agreement. For example, the mechanism would be altered if it was deemed to discriminate between export and domestic customers.

The agreement allows restrictions on the basis of national security, but only on narrowly defined, defence related grounds. This makes a challenge of Canadian electricity exports less likely on these broad national security grounds, grounds which US coal interests had considered as a means of reducing electricity imports. However, the possibility of a countervail challenge to Canadian exports remains.

The energy provisions, as they relate to electricity, do have some implications for Ontario Hydro. The agreement would make it less likely that Canadian electricity exports could be interfered with by either the Canadian or US governments. As a result, this makes exports more secure and therefore more attractive to US importers.

Quebec, Manitoba and British Columbia are the provinces most directly affected, as all are considering construction of generating facilities to serve export markets. As a result of the agreement, Ontario Hydro would likely have to pay a higher price and commit itself earlier for purchases from other provincial utilities.

The nullification and impairment article in the agreement allows either party to challenge the application of any measure which nullifies or impairs any benefit reasonably expected under this agreement. This would appear to allow US interests another route to challenge electricity export pricing, or even domestic pricing, in addition to using the grounds of alleged subsidies.

The general thrust of the energy provisions of the agreement is to reduce government interference in energy pricing. For example, if Ontario Hydro introduced an economic development rate, it would probably not be seen as being inconsistent with the agreement. However, a government directive to introduce such a rate would likely be challenged by US interests.

Finally, I want to briefly discuss the energy provisions as they relate to uranium and coal.

The agreement exempts uranium exported to the US from Canadian upgrading requirements and exempts Canadian uranium from any ban on the enrichment of foreign uranium. Ontario's uranium upgrading industry could be negatively impacted by this change. Several refining contracts could be lost; however, our industry should be competitive with US refineries.

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The big benefit is that Canadian uranium exports to the US--worth between \$300 million and \$400 million annually--will be protected. This is particularly beneficial to Saskatchewan uranium producers.

Coal: Ontario imported about 12 million tonnes of US coal in 1986, worth about \$800 million. The coal was used primarily for electricity generation and iron and steelmaking. While the free trade agreement would make these imports secure, the vast supplies of US coal and the limited market for that coal make these imports very secure currently.

The agreement will preclude the use of transportation subsidies to increase the use of western Canadian coal in the Ontario market.

Mr. MacOldrum: In summary, under the free trade agreement, Canada appears to have given up much of its ability to conduct an independent energy

policy, including the ability to guarantee security of supply. It has done this in return for general assurances that energy producers will have secure access to US markets. This access will probably be assured in any case, given Canada's relative strength in energy resources. Thank you very much.

Mr. Chairman: Thank you very much. Perhaps we can have the lights up now. Mr. Mackenzie has a question and Mr. Ferraro.

Mr. Mackenzie: I appreciate your brief. I do not think the words are too strong when I say it is one of the most devastating briefs we have had yet in terms of what the potential problems are. It seems to me that we have no increased access for energy on our terms, in any event, and yet the US gets what it wants, when it wants it and on its terms. I have some real difficulty.

If I can just refer to three comments on page 11 of your paper--and there are many of them that we could refer to, I want to get a reaction to this if I can. At the bottom of the page it says,

"The US, as a whole, will be assured access to purchase their traditional proportion of Canadian supply under market conditions, regardless of contracts, existing export licences, relative size of markets or the impact on Canadians."

I do not know what more you could ask for if that is an accurate statement in your brief.

On page 14--I think it is significant--"The National Energy Board's October 1986 report, Supply and Demand for Canadian Energy 1985 to 2005, projected that Canadian natural gas demand could exceed deliverability between 1998 and 2002"--to my way of figuring, that is only about 10 years away--"even if no further exports are allowed beyond those already authorized."

On page 16: "The circumstances under which export licenses could be refused will be limited. Under the proportional access provision, Canada will be unable to protect all Canadian customer needs, should a shortage occur."

I guess my direct question to you is--and it may be more a policy one than anything else--what is more devastating to Canadian sovereignty than those particular comments in your brief? It is an absolute negation of our future sovereignty ability.

Mr. MacOldrum: Mr. Mackenzie, you certainly highlighted one of the areas of greatest concern to us as people advising a consuming province on the impact of this agreement, and that is the proportional access provision, article 904, paragraph (a).

We have had circumstances in the past where our domestic oil was insufficient to meet Canada's requirements and we have had to phase out oil exports, as we did during the early 1970s. Canada's freedom to do that is now greatly limited by the proportional access. It is certainly the major area in which we have given a great deal.

The other point you raised was the access to the United States for Canadian producers. The one area in which that access was impeded, and has been impeded recently, has been the regulatory actions of the Federal Energy Regulatory Commission, what is sometimes called the FERC. There is nothing in the agreement which, in effect, protects Canadians from future regulatory

actions to impede access, except provisions for consultations among the departments and the Canadian and US regulatory agencies. So I think you could just balance something where we have given up a great deal to ensure our future energy security and have got very little in return.

Mr. Mackenzie: In effect, we have consultation, which means absolutely nothing in any hard, factual way, and especially, I think, when you are dealing with some of the Yankee traders. I do not say that unkindly about the Yankee traders.

Mr. MacOdrum: Particularly when, given their system of government, the administration is able to say, as it has said when the Canadian government has protested the actions of the Federal Energy Regulatory Commission, "This is an arm's-length, independent agency and we don't really have any policy control over them."

Mr. Mackenzie: Let me take it a step further, if I can. I am sure that your ministry is aware that one of the US aims for as many years as I have been involved in politics, and prior to that, has been a continental energy policy. It is certainly to their advantage and something they have wanted. They have obviously got it now with this free trade arrangement, which is one of the reasons I think we have some real concerns in terms of our ability in the future and incentives we can use. In northern Ontario, for example, which is already at a disadvantage because of the costs, we are not going to be able to use energy pricing to assist them.

What is your ministry telling the government officials that we should be doing to negate--if not to negate then to meet--this very obvious threat to our country? I ask you that specifically--and I am not trying to put you on the spot--because the general reaction of the deputy ministers and the people before this committee has been, "We are to give an outline as to what the possibilities are or what the dangers are or what the benefits are, but government makes the policy and makes the decisions."

Surely something as obvious as the paper you have presented to us here today should have meant specific direction or suggestions to the government, or do you also see that as beyond your mandate?

Mr. MacOdrum: We have certainly made the government aware of our analysis, both of the initial terms of the agreement and the detailed language of the agreement. I think the government has reflected that concern in its public statements and actions in relation to the free trade agreement, but I think I would agree with you that to go beyond an evaluation of that is probably beyond what I should do and that is more properly put to the ministers.

Mr. Mackenzie: What we have had so far is words, and it is almost like the consultation that we can use to try to argue our case with the US. Consultation is not going to do us a heck of a lot of good unless it is made very, very clear that a government in Ontario will not allow certain of these things to happen, because they certainly do compromise almost anything we can do in future in terms of development of this province and in terms of security of supply to Canadians.

It seems to me that what has to happen now is a government that says: "Hey, this is not going to be allowed to happen. We are not just saying we oppose it; this is what we are going to do." Do you see any specific direction that could be given by the Ministry of Energy in that respect?

Mr. MacOdrum: I think the first necessity is to understand the dimensions of the situation, and that is what we are attempting to assist the committee with this morning. Then, obviously, the appropriate actions will have to be directed at the signatories to the agreement, which is the government of Canada.

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Mr. Mackenzie: Which is exactly what we have been trying to get, certainly in my party, and have not been able to until now. I make no apologies for making that, even if it is a political statement to you as ministry personnel in the deal.

My only final comment, Mr. Chairman, is to you. I do not know how sincere the government and this committee was in the motion that Mr. Ferraro brought back to this committee about "without prejudice," so that we could take positions other than what was indicated in that debate and the resolution that was passed in the House referring this matter to the committee, but I can tell you right now, unless somebody has some apologies or answers for what is in that particular brief, then this committee, if it has any relevance whatsoever to this free trade issue in Ontario, had better be prepared to say that words are no longer good enough. I make that strongly and sincerely to all of my colleagues in this bloody committee.

Mr. Chairman: I think it is taken strongly and sincerely.

Mr. Ferraro: It is probably appropriate that I speak right after Mr. Mackenzie, first, by saying that albeit the motion was somewhat a motherhood statement, it certainly was sincere. Of all the political ramifications of everything we do as politicians in this House and as members of the committee, I can say without hesitation that in my short tenure as a member of provincial parliament, very few issues have perturbed me as much as the ramifications of this specific aspect of the free trade deal. It perturbs me not so much as a Liberal or an MPP, but as a Canadian, and I mean that sincerely.

I guess by way of preamble, I can only say to Mr. Mackenzie that I hope we can take some action. What action, I am not sure of yet. We have talked about going to court. The impression I have at this stage is that if we go to court we are liable to lose more than we can gain. But my sincerity, and I think I speak on behalf of my party on this issue, is quite legitimate and profound. I want to reiterate that as a Canadian this really ticks me off. I appreciate your brief, gentlemen. I want to ask some questions and try to grasp the significance of what will happen to our country in this sector.

Is it safe to say that Canada is self-sufficient in oil and gas and that the United States is not?

Mr. MacOdrum: That is correct, sir.

Mr. Ferraro: Then the question has to be asked, and I have some acumen in the art of doing business, why would Ontario, for example, import any US gas or oil at all, and to what degree are we doing that now?

Mr. MacOdrum: We import some crude and some petroleum products. In fact, when people ask us why our gasoline markets are as competitive as they are, particularly in parts of southern Ontario, it is the ability of refiners and independent marketers to have access to US product that is a factor in

keeping them competitive. Access to US product imports has had a beneficial effect on gasoline markets.

We have imported some natural gas. We only have one point at which we can import any significant quantity, and that is at the Windsor-Detroit border, which interconnects with the Union Gas system and the US Panhandle eastern pipeline system. We had, in the 1970s, under a long-term contract, imported about eight billion cubic feet per year out of what was a total market of about 600 billion cubic feet annually, so it was a small amount. We have brought in--Union Gas has and Consumers' Gas has looked at doing it; I do not know whether it has actually brought in some quantities--where it was available in the United States at less cost than from alternative Canadian sources.

Mr. Ferraro: Will that continue?

Mr. MacOdrum: Unfortunately, today it is present. It is a circumstance that you can actually buy natural gas in the United States, in US producing regions, and deliver it into southern Ontario markets more cheaply than Canadian gas.

Mr. Ferraro: Is there anything in this agreement that will preclude, let us say, somebody from Windsor buying natural gas or oil from the United States at a cheaper rate than he can buy it from Alberta?

Mr. MacOdrum: Nothing precludes them from doing that, but nothing before the agreement precluded them from doing that.

Mr. Ferraro: OK, but for all intents and purposes I want to talk about this agreement. If I understand the scenario correctly, what we are going to say now--this wonderful deal that Reisman says is the saviour of this country--is that we cannot sell our resources, essentially gas and oil, to Canadians at a preferred rate. We have to charge the US the same price. Is that right? We cannot give Canadians a preferred rate for energy, specifically gas and oil, as opposed to the rate we are charging the United States. Is that not correct?

Mr. Jennings: The government cannot impose a preferred rate. Any kind of rate that is arrived at by negotiation between a willing buyer and a willing seller is acceptable under this agreement.

Mr. Ferraro: So the government of Canada cannot say hypothetically, "We are going to sell Alberta gas to Newfoundland at a cheaper rate than it can buy it from Texas"?

Mr. Jennings: Yes. The government cannot impose an export tax or cannot direct gas or require gas to flow in certain ways. But if, for whatever reason, different prices are negotiated by different people, that is fine as long as it is under commercial consideration.

Mr. MacOdrum: We still have on the books of the statutes of Canada a piece of legislation called the Energy Administration Act. Under that piece of legislation and its predecessor, the Petroleum Administration Act, Canada did have a two-price oil system, and it did have, through the regulations of that act and the National Energy Board Act, a two-price gas system.

Mr. Ferraro: And the Canadian consumer got a preferred price.

Mr. Jennings: That is correct.

Mr. Ferraro: We no longer can do that.

Mr. MacOdrum: We cannot do that by government action.

Mr. Ferraro: By government action.

Mr. MacOdrum: That is right.

Mr. Ferraro: But if Rick Ferraro Enterprises can negotiate a cheaper price with an Alberta refinery, that is allowed.

Mr. MacOdrum: Yes, that is permitted.

Mr. Ferraro: In effect, any government control over our energy is gone.

Mr. MacOdrum: That is right. The question is, why would an Alberta producer sell to you if he has access to other markets where he can obtain higher prices?

Mr. Ferraro: That is right. So the chances of my getting an advantage as a business person are minimal, to say the least.

Mr. MacOdrum: I think it would be coincident good luck.

Mr. Ferraro: I guess what has not really been considered, notwithstanding the fact that the government has no control over its own resources--and, quite frankly, what we do with our resources I personally do not think is any damn business of any other country--is the fact that really what is going to happen is we are going to pay twice for our energy supplies from the standpoint that we have spent billions of dollars by way of either direct investment or tax incentive--I am talking about the Canadian taxpayers, and correct me if I am wrong--on developing our resource sector. For example, there is the Beaufort Sea. The Canadian government spent billions of dollars. Ontario Hydro is another example. The people of Ontario have a large debt and investment in Ontario Hydro and we cannot even give ourselves a little bit of an edge. Is that correct?

Mr. MacOdrum: Yes. I am also the president and chairman of an organization called Trillium Exploration Corp., which was an entity established by the previous government to explore in the frontier area and take advantage of the petroleum incentive payments, which in the cases of companies with the highest level of Canadian ownership were entitled to grants of up to 80 per cent of the cost of drilling in frontier regions such as the Beaufort Sea and the east coast. That corporation did spend significant funds of the Ontario taxpayer and, in spending them, levered significant funds of the taxpayers of Canada to find gas and oil in the frontier regions. It was quite successful in doing that. There is absolutely no question, particularly with respect to our frontier resources, but also the conventional resources, that the public of Canada has a very large investment in those resources today.

Mr. Ferraro: Notwithstanding the people of Ontario directly.

Before I get onto that last part, let me ask this question. You state on page 20, and we alluded to it earlier, that the government of Ontario cannot

say to Ontario Hydro, which is owned by the people of Ontario: "We want a special economic development program"--let us say in northern or eastern Canada--"so we want to give a preferred rate to industry for consumption of electricity." The Ontario government cannot do that, but the board of Ontario Hydro can. Is that correct?

Mr. MacOdrum: This is actually one of the real uncertainties in the agreement. We have asked questions of the trade negotiations office and we have asked questions of the federal Department of Energy, Mines and Resources as to just exactly what the scope is with respect to the freedom of government-owned electrical utilities to price. The initial answer they gave when we asked them the question, could we have economic development rates or economic incentive rates, was, "Yes, you can," but when we probed in more detail, it became clear that what they meant was that those rates had to be established in accordance with "commercial criteria" and not set as a part of a government policy or direction.

Since not only Ontario Hydro but Hydro-Québec, for example, get their authority with respect to their rates from their enabling statutes, it raises concerns to us about just what ability governments continue to have to use their provincial electrical utilities for economic development reasons. It seems to us that those actions, if they are the result of the government actions, have become significantly more vulnerable than they were in the past. So this is still--

Mr. Ferraro: If I can just interject, it really challenges the direct authority of the government and people of Ontario vis-à-vis their control over one of their largest investments--if not their largest single investment--in the province.

Mr. Jennings: Some of these things are still a bit up in the air--the impact on utilities--because there is an ongoing process over the next five to seven years to negotiate what are acceptable subsidies and what are not.

Mr. Ferraro: It scares the hell out of me. If we have given this up, what is left?

Mr. Jennings: Certainly, any type of economic development rate could fall into those kinds of discussions: things like provincial loan guarantees--Ontario Hydro's debt is guaranteed by the provincial government--operations of utilities where they do not have to earn a return on capital or exemption from corporate income tax. Those types of things all could be negotiated or discussed in that ongoing process.

Mr. Ferraro: I could go on, but I just want to end with one query without further throwing stones at this particular sector, if you will. I am trying to understand the justification for the energy producers in the western provinces. If indeed you are telling me that by the 1990s we could be a net importer of oil--and you are, you will agree--and that the United States is not self-sufficient in energy and we are, and that the possibilities of having access to those markets, I think logically and economically, are there--and I agree with you; one of the things they want is our resources; quite frankly, probably the major thing they wanted is access to our resources--if the market is there, why are the western producers so gung ho for this unless they are owned by American entities to begin with? What does it give them that they do not have now?

Mr. MacOdrum: If you read our brief, a number of the things that we identify as concerns for Ontario about the agreement would be cited as advantages, I think, if it were read in western Canada, particularly in Alberta.

They believe that placing limitations on the government of Canada to take actions with respect to energy pricing, energy taxes and energy exports is a benefit to the producing provinces. Those are the very things we have cited as areas of concern, that it does severely limit Canada's ability to implement an independent and national energy policy, but those same concerns are the very thing that are cited as an advantage of the agreement in western Canada. That is one of the reasons that, as Canadians, the energy parts of the agreement are certainly somewhat divisive in our federal-provincial relations.

Mr. Ferraro: These are the same guys, the same hypocrites, if you will, who are saying: "We want the government to really stay the hell out of controlling our energy, save and except this wonderful deal we have got. But every time we have a problem and the price of oil goes down, we want you to give us tax concessions and we want you to invest in our resource sector." They want it both ways, basically, and from a business standpoint, I can understand that.

Mr. Crosbie, answer this for me, or one of the other gentlemen. In the energy sector, has there ever been a deal comparable to this one? I can understand if the United States or Canada say in an agreement, "For the next five years, we want to buy this much of a commodity," whether it is gas or oil or whatever, but has there ever been a situation where they have said, "If something happens out there, then we have to adjust it."

It is in a vacuum really. There is no time line on it. Is this unique? It has to be.

Mr. Chairman: That is Mr. MacOdrum you are talking to. Mr. Crosbie is not here.

Mr. Ferraro: I am sorry, forgive me. I came in late. I apologize for that.

Have you ever seen a deal anywhere close to this one?

Mr. MacOdrum: It is certainly unique in Canadian history.

Mr. Ferraro: Unfortunately.

Mr. Haggerty: Following along with what Mr. Ferraro has said, as I look at the document before us this morning--and I appreciate the document; it was well put and in the proper manner--really what it boils down to is an economic takeover of Canada without firing a volley, you might say. If any country can get the insurance of a major source of supply of energy and is an outside country, outside Canada, it has it made because it is going to control the whole industry in North America. The Mexican president was smart when he said: "I would not get into a deal like the Canadians have with the United States. I am not going to sell our energy resources out or give them away."

You can talk about economic assistance given to industries, even in the Niagara region. I am talking about the American side now, the New York State Power Authority. Governor Cuomo has given certain economic concessions to industry there that say, "This will secure 12,000 jobs in and around the city

of Niagara Falls and in the Erie county basin." The omnibus bill in the United States is really a bill that carries quite a bit of clout, because they are holding that sledge-hammer over anybody who is going to make a deal with the United States presently. What they are saying is, "You either come our way or that legislation applies," and the door would be closed.

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I think of incidents right now on the Niagara River. On the American side, for example, the power authority has almost completed the next phase of its development for another 400 or 500 megawatts, given by treaty, I guess, between Canada and the United States. They are taking off their share, while we in Ontario sit here. We know there is a plant down there now that has been mothballed for years, that there are about 400 to 500 megawatts available yet, and we have not moved in Ontario to get our fair share of that water coming off the river.

You can rest assured, as the water table in the Great Lakes is going down considerably, that when we make up our mind, finally, to get in to get this 400 or 500 megawatts--and I suppose if you used the right turbines, you could get 600 out of it--they will say, "Uh uh, this is our secured supply." So we cannot get our share of the energy that is really ours off that river or the water that is going over it.

I am concerned about that, because it seems to me they are going to be dictating policy here in Canada, to us as Canadians, saying, "This is what you are going to do." You can rest assured that if this deal goes through, you are going to see that pipeline come down from the Arctic, from the Beaufort Sea, and they will bring it down directly to the US. And do you know what is going to happen? It is not even going to be built by Canadian steel or Canadian labour; it will be built by American money and American steel.

They have a huge plant down there right now, a pipe mill that is ready to go. We have one sitting in Welland, for example, one of the best in Canada, and Stelco, I believe, has another one in Edmonton sitting idle, you might say, waiting, but they will never get a chance to bid on it. The Americans will come back and say, "For security reasons, we will have direct access to that." You can see what has taken place in the north, where the Americans now have access to Canadian Arctic waters which belong to Canadians. All of this is part of the free trade deal, if you call it that, but it is not a fair deal.

I just want to look at this thing here. I cannot understand why any Canadian would support it. The Tories have said, even Mulroney has said, that the economic benefits of the agreement substantially outweigh the cost. Who is going to get the economic benefit from this? It is not going to be Canadians; they are going to be sold down the river. There will no hope for future generations of Canadians at all, if this deal goes through under this arrangement. It gives Americans complete power and control of our energy. I think your report pretty well said that this morning.

Mr. Chairman: I am quite entranced with what you saying, Mr. Haggerty. Could you formulate it into a question, though?

Mr. Haggerty: Section 92A of the Constitution Acts says the provinces do have certain rights, but there is another clause--I forget; it is about the third one down--that says the federal government has a right to set policy in this area. That is what I am concerned about. Do we have any rights under that section 92A? Apparently not.

Mr. MacOdrum: Subsection 92A(3) does recognize federal paramountcy.

Mr. Haggerty: That is right. That is where they have us over a barrel, I guess. They can pretty well do what they want in this area.

Mr. Ferraro: That is an appropriate analogy, a barrel.

Mr. Chairman: Do you have a supplementary?

Mr. Haggerty: It is just that Section 92A does not give us any rights at all. This is what the federal government can do, unless there are some changes made in it.

Mr. Chairman: I think this is a good question to put to the Attorney General (Mr. Scott), is it not?

Mr. Haggerty: These are experts in this area, and I think they have a good grasp of what the issues are.

Mr. MacOdrum: I think we did indicate that section 92A does provide for a paramountcy of federal legislative authority over provincial legislative authority. The federal government would have to exercise that authority.

Mr. Haggerty: They are, are they not?

Mr. MacOdrum: But in legislation, it would oust the provincial legislation.

As I am sure you are aware, the situation with respect to the water on the Niagara River is the subject of a much earlier treaty which determines how that water is shared. Of course, that treaty was not the subject of the free trade agreement.

Ontario Hydro does have plans to enlarge its facilities on the Niagara River to make sure the water to which Canada has rights, which was previously going through the plants closer to the falls, if I can put that location, is fully utilized. There is certainly an intent to fully utilize the water that is available to Canada through the Niagara system.

Mr. Haggerty: But under this agreement, they really have control over our energy. They do have, by this agreement. They are getting access to it. It is not a two-way street. That pipeline heads one way, and that is south. Very little is coming back.

Mr. MacOdrum: The way I would characterize the agreement is that it fundamentally says that the pace of the development and the exploitation of our energy resources will be in response to the needs of the Canadian and US markets, and that will be what drives the pace and pattern of development. To me, that is the fundamental question. I would call it philosophical; others might call it political. It is whether Canada wants to have the pace of its development determined by Canada-US markets or whether we want to have a priority for Canadian use recognized with respect to our resources.

Mr. Haggerty: Or a Canadian energy grid.

Mr. Neumann: This particular sector of our examination goes right to the heart of the economic sovereignty issue that I raised earlier. It seems to

me, while we had representatives of the Ministry of Culture and Communications, one can take a broader view of culture and say that Canadians have had a different attitude towards the role of the public sector in determining nation-building and an economic development approach right from the very beginning of Canada, with the public involvement and the development of the national railway and Ontario's role in terms of public ownership of hydro.

What bothers me is that we are entering into an agreement where future governments, with perhaps a different philosophical approach than the present national government's, will be restricted from even considering a public sector role in determining a national energy approach and an economic development approach for this nation. Am I correct in my conclusion there?

Mr. MacOdrum: I think you have hit upon an area of major concern, and I think "culture" is really the right word. The economic cultures of the two countries have, historically, been quite different. Our views with respect to a mixed economy have differed markedly from the US experience except for some that would in the US situation be isolated examples: the Power Authority of the State of New York, the Tennessee Valley Authority, Bonneville and that kind of thing.

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Clearly, the agreement appears to have contemplated and been entered into with an understanding that there is a closer convergence of the economic cultures of the two countries than, I suggest, a reading of our history would indicate.

Mr. Neumann: This frustrates me more about this agreement than anything that I see in it in other sections. I guess the Conservatives, federally and provincially, are supportive of the agreement, and perhaps they are because it moves the Canadian economy closer to a pure market approach, a continental market approach. If they want to empathize with that kind of frustration, they might consider a Canadian government that might enter into an international treaty which prohibited for all time the consideration of privatization.

It seems to me that it is one thing for Canadians to elect a government that is going closer to the market system and ignore that, but I think to enter into a treaty that prohibits future voters from electing a government that might want to consider a public role in energy, national energy policy and economic development is a far-reaching step that cuts right to the heart of what this country is all about.

If Canada once again faced the kind of economic energy shortages and rising world prices that it faced in the mid-1970s to late 1970s, would future Canadian governments be prohibited under this agreement from once again considering national energy strategies similar to the ones our federal government entered into at that time?

Mr. MacOdrum: Mr. Neumann, what we have tried to indicate is that the ability of a future Canadian government to do that is much more limited under the agreement than it has been in the past. If those circumstances of energy supply difficulties, rapid spikes in energy prices and international oil prices prevailed, the tools that we have as a nation to cope with those circumstances and cushion the impact of those circumstances on our economy are much more limited than they were in the past.

Those are not hypothetical possibilities, that those events may occur, that we may have future oil supply difficulties and we may have a future oil price spike. Certainly, all our planning and all our forecasting is based on the assumption that we will have future supply difficulties and we will have a future price spike. It moves around as to when it may occur and the circumstances under which it may occur, but I do not think there is any question, given the distribution of oil resources, particularly--and it will be oil that will drive it worldwide--that in the 1990s those circumstances that occurred in the late 1970s and early 1980s are likely to recur.

Mr. Neumann: May I get very specific about one action the government took in the 1970s when eastern Canada was dependent on imported foreign crude and we supplied most of Ontario from western Canada? There was a policy implemented whereby the high imported price was subsidized for eastern consumers by imposing an export tax for our western crude. Are we prohibited from engaging in that kind of strategy?

Mr. MacOdrum: That is one of the specific actions that is prohibited.

Mr. Neumann: I think eastern Canada, the Maritimes, might want to look very closely at the implications of that.

Mr. MacOdrum: Another interesting aspect, of course, is that the US went through that period by imposing domestic oil price controls itself. They are not so limited in doing that because they do not export oil except in a very limited amount. It is only the exporting signatories that are limited, so they could do that in the future.

There are certain things you can do in terms of price stabilization that remain in the agreement, but the tools with which you can do that are much, much narrower.

Mr. Neumann: When the officials of the Ministry of Agriculture and Food were here, they presented for us on a slide a balance sheet in agriculture, the pros and cons, where we gained and where we lost. The bottom line was a projected \$95-million annual loss to Ontario farmers, and we quibbled about whether that was modest or not.

Could you prepare a similar kind of balance sheet analysis, making certain assumptions of future energy crises, in terms of what could happen to Ontario consumers, producers and users of energy?

Mr. MacOdrum: I think it is virtually impossible to try to quantify those impacts.

Mr. Ferraro: You cannot project how big the disaster would be.

Mr. MacOdrum: It is our view that the effects of the agreement will increase the domestic price of oil and it will increase it sooner. When that will happen and to what extent depends on many assumptions about international as well as North American oil markets.

We also, of course, indicate in the document that our security of supply, particularly because of the proportional access provisions, is much less with the agreement than without it.

Again, quantifying that and the price effect of that would be extremely difficult to do, I think. I can tell you that we have not done that. If you go to what the impact would be on electricity rates, for example, while we are really still trying to gain some understanding about the meaning of the provisions and what limitations they do place upon Ontario Hydro and the government's ability to influence electricity rates, I just do not think it is quantifiable at this time.

What we have tried to do in the presentation, however, is list concerns and also list the benefits.

I guess the other caution I would make of trying to set up a balance sheet is that the energy parts are viewed so differently in different parts of Canada and by people in different businesses in the same part of Canada.

Mr. Neumann: We are talking about an Ontario balance sheet. That was my request. The reason I asked for it is that it is obvious to me that the two other analyses we have heard so far, the one in agriculture and the one on the overall economic effect by the chief economist, do not, it seems to me, consider a possible worst-case scenario in energy that could impact on jobs, on agriculture and many areas. I think it would be useful to try to at least get a projection based on current market conditions continuing and a worst-case scenario.

Mr. MacOdrum: Mr. Neumann, what I will undertake to do is to discuss this matter. I am not an economist, but I will undertake to discuss it with our economist and see if there is something that we can come up with which is useful. I think that would be a criterion you would want us to apply to it. If we have to go so far in the assumptions that we really--it is going to be what I think people would say are fairly soft numbers.

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Mr. Jennings: We could probably give some indication of the direction of some of the effects, but any type of analysis like that would be very dependent on what scenario you used. Certainly for one thing, it would be easily attacked by anybody.

Mr. Ferraro: The confusion is intentional, is it not?

Mr. Neumann: I must say that the Ministry of Agriculture and Food, in presenting its balance sheet, qualified it all over the place by saying it was based on a number of assumptions and if those assumptions do not hold, it is going change. But at least it gave some indication.

My last line of questioning, if I may, relates to the position taken by the government of Quebec and the recent sales approved by the National Energy Board. Would they be able to enter into those kinds of agreements in the future, where they are charging a higher price to the American purchaser than to the domestic market?

Mr. MacOdrum: I was in Quebec City last Tuesday and had an extensive discussion with Quebec officials on a wide variety of energy matters, including the electricity export matter. I think their view is that they still have the freedom under the agreement to negotiate as good a deal as they can get. The agreement does not prohibit them from negotiating a deal which, for example, has a price clause in the agreement that relates the price to the

cost of alternative generation available, for example, to Consolidated Edison or some other US utility.

What the agreement does is remove the requirement that the National Energy Board has that the price has to take into account that factor, the price of alternative generation in the buyer. In their view, they are still able--and any utility is able--to negotiate the best deal they can. They are quite confident of their ability to negotiate deals they consider favourable.

Mr. Neumann: We have had a lot of negatives pointed out. Perhaps one positive to this deal, if we are entering into a continental energy policy and if Quebec were to develop water-based, hydro-generated electricity in the future that is cheaper than what we can do, is that we can avoid building nuclear reactors by having free and unlimited access to Quebec Hydro. Is that part of the deal?

Mr. MacOdrum: I am not sure my response in that area will be met with pleasure by all members of the committee.

If you are going to look at buying significant quantities of electricity from either Quebec or Manitoba, to generalize more, they are going to price their sales to you based on what your alternatives are. If your alternatives are coal, natural gas, oil or something like that, they are going to price it taking that into account. If you show and continue to show an ability that they need not price it taking nuclear into account, then they will not base their pricing on the nuclear alternative.

I think it is quite clear from Ontario Hydro's experience that we can build and operate nuclear plants in this province which are, in their rate terms, of very significant advantage to the electricity consumers in the province.

Mr. Neumann: My last question is a historical one. As you know, this is not the first time in the history of Canada that we have considered a free trade agreement. I believe it was a major issue back in 1911. Ontario, it seems to me, developed an advantage in terms of the manufacturing industry, not only from the tariff but from the initial cheap energy from hydro generation from Niagara Falls and so on. It got us a start in manufacturing.

If we, as a nation, had adopted a free trade policy with the US, including this current continental energy deal with American access to our energy, would we be in the same advantageous position we are today in terms of manufacturing in Ontario? Is that very difficult to determine?

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Mr. MacOdrum: It is one more for historians, but there have been a number of things that Canada has done in its history to balance the strength of our manufacturing presence in Ontario and Quebec and also to ensure that we have a strong energy industry: things like the national oil policy of 1959, when the Ontario market west of what was called the Ottawa Valley line was assured for domestic oil production. So, in fact, when it was difficult to get Canadian oil into the US market, we guaranteed access for Canadian oil into the Ontario market and paid a premium at the time.

Mr. Neumann: We paid \$4 a barrel when the world price was \$2.50.

Mr. MacOdrum: I do not think the differential was quite that, but certainly there was a premium that was paid during that time. But that was an advantage to the industry in western Canada, and it has turned out to be beneficial to Ontario.

So there have been puts and takes. I think the one thing you can say is that if we obviously had a different economic history in 1911, we would be quite a different country today.

Mr. Neumann: If we still were a country.

Mr. MacOdrum: How we would be different is something beyond the mandate of our ministry.

Mr. Chairman: Just briefly referring to one of the topics you raised, Mr. Neumann, I doubt if any of the economic analysis that has been done in conjunction with this debate over the course of the past two or three years has taken this into consideration at all. It might be something we should be looking into to see if any economist can really grapple with it. I just do not know whether one can or not, but it is something we can perhaps ask some of the economists who will be speaking to us next week.

Mr. Beer: I would like to touch on a couple of points that Mr. Neumann mentioned and that I think were implicit in what Mr. Mackenzie said, because I think probably this section of the agreement raises it in probably as fundamental and clear a sense as it is raised anywhere. You mentioned perhaps the word "philosophy." Let us use that word for the discussion.

When we look at our economic history, I think it is fair to talk about our economic culture. That has evolved in a certain way for reasons; it did not just happen by itself, and I think we have always felt in this country, as a neighbour of a much larger and economically stronger country, that I suppose in order to try to equalize the playing field at times, we had to have our government be able to move into some sectors, whether strictly economic or cultural, in order to ensure certain legitimate public policy objectives.

Now, I think that is a perfectly legitimate area for both philosophical debate and political debate. I have no problem, as a member of a vibrant democracy, if Prime Minister Mulroney wishes to say, "Perhaps that is the way it has been, but we would like to see that change." I think that is a perfectly legitimate question, and Canadians can debate that.

Clearly, though, here, if this is enacted, it very definitely moves us in another direction, which may or may not be desirable. I suppose what I am saying is that, as I read it, I would not view that as being desirable, because it takes away the possibility of a variety of public policy initiatives that I might argue would be in the best interests of Canada, and without that, we are in a difficult situation vis-à-vis the Americans because it is going to be harder in a small country and for various other reasons to have an impact on how energy policy would develop. Now, whether that means we ought to have an election on this is another matter and will be resolved in the fullness of time.

I think it is important. You made the point, and it has been made, that there are some pretty substantial public policy elements to this beyond the strictly economic discussion.

What I find interesting about this is, if I understand correctly, this whole area did not really come into the discussion, or at least it did not come in in a very big way, until very late in the game. I can understand from the philosophical side that perhaps there were pressures to bring this forward, but in terms of the more specifically energy-related concerns, the economic concerns, when it was finally clear to you and your colleagues that there was going to be a major part of the agreement on energy, what then were the arguments that were advanced to you as to why this was important to have and why it was there?

What was said that justified this being included? Perhaps it was, "Look, we are making some big gains in totally different areas and yes, we know we are not necessarily winning or losing much here perhaps, but we have to put it in." But were there, strictly from within the energy community, perhaps apart from uranium, some compelling reasons and were these reasons that you would have been aware of a year ago, or six months or a year and a half ago, and it is just that they finally came into play? Why is this here from that specific perspective?

Mr. MacOdrum: I believe, Mr. Beer, this has been an area in which there has been some public debate by first ministers, for example, as to when they first heard about the energy chapter and when it was included and when it was not. All I can answer to is my own knowledge and experience. I did certainly participate in some briefings by the trade negotiations office and others of our staff kept in contact with the trade negotiations office and the federal Department of Energy, Mines and Resources about this as the matter was proceeding along.

I think the impression we had is that the energy matter became a separate matter rather late in the discussions. There were some discussions that various generic parts of the agreement, dealing with things like subsidies, monopolies and investments, would have impacts in the energy sector, but the impression we had was that there would not be a separate energy portion. As the months came closer to the actual initialling of the elements of the agreement, we did begin to pick up some understandings that energy might play a more prominent part.

Mr. Beer: Again, the question is not what related to what first ministers knew or did not know, but more specifically, what those in the field, say, at the federal department, saw as being the net benefit of this. You suggested before that perhaps to a consuming province the negatives are what the producing provinces see as benefits, but I would assume that along the way the federal department was trying to look at what the balance was.

Just within this section, I cannot find that balance. I am just wondering from that perspective if you could help us in terms of whether you see some tradeoffs there or just simply that there were sort of two views, if you like, a producing province view and a consuming province view, and the decision, for whatever reason, was made to go essentially with the producing.

Mr. MacOdrum: My impression is that the energy provisions of the agreement were largely included as a result of the representations of the US side. The thing they were most particularly anxious about were provisions such as the proportional access provisions since, as I noted, we had in the 1970s phased out our oil exports, and also in 1974 or 1975 there was a lot of discussion about having to curtail our natural gas exports.

Certainly, governments at that time stated they believed that under our then regulatory legislation we could curtail our gas exports unilaterally. I think it was a concern on the part of the US government that if areas of the United States became more dependent on Canadian energy imports, it wanted some assurance that it would have that continue at least on some basis in relation to their historic take.

My impression, and I cannot state it more strongly than that, is that those kinds of provisions were requested by the US side. I do not have a clear understanding to what extent they were resisted by the Canadian side or what was traded off for them.

Mr. Beer: That I understand. I think all that does, and I will finish with this, is that it seems to me it underlines the fundamental question about all this, which is our ability to be able to control the future course of our development in this whole area, whether federally or provincially. It underlines again the concerns of Mr. Mackenzie and Mr. Neumann.

Mr. MacOdrum: An international treaty is intended to constrain sovereignty. The purpose of an international treaty is that two nations seek to do that, not just this international treaty but virtually any other international treaty.

Mr. Beer: But presumably there is a reason why you are doing that which you both see as being an inherent good.

Mr. MacOdrum: That is right. You would surely only do it if it was to your mutual advantage.

Mr. Beer: Yes.

Mr. Jennings: The energy producing provinces and interests have said that they were glad for things like the quantitative restrictions from the US side, that they would not oppose quantitative restrictions on imports. They see some benefit from that. Now, from our point of view, we would argue that those types of restrictions will not be put in place in the future. As energy markets tighten, they will want our oil, gas and electricity. We do not see that as being as significant a benefit as they have argued. Again, there are sort of general assurances that these will not be put in place, and things like restrictions because of countervail duties or because of regulatory decisions have not really been specifically addressed except for a requirement for consultation.

Mr. Chairman: Mr. Beer, Mr. Pelissero's question was your question and he has a supplementary.

Mr. Pelissero: Some of your most recent comments really add an element of credibility or relevance to the theory of the hidden agenda to these whole trade discussions, in the sense that all the United States was really after was our natural resources anyway and that the time from a negotiating point to bring that topic up was at the eleventh and a half hour, recognizing the political sensitivities that were involved on both sides, more particularly from the Canadian side.

I would maintain that it changed from, say, an economic negotiating process when Mr. Reisman in a flurry and very much for the media walked out

proclaiming, "We cannot do the deal." It became a political negotiation when Miss Carney, Mr. Wilson and the other gentleman from the Prime Minister's office got involved. From the United States' perspective, its sole goal might have been to see more California wine in Canada and Jack Valenti's movies up here and the energy which they do not have a supply of and we do.

I have more of a statement than a question. Certainly, some of the comments you have made from inferences and, in quotes, the consultation process, leading up to prior to October 1987 would just reinforce that feeling.

Mr. Chairman: I might add here that I recall when the former select committee on economic affairs first travelled to Washington, we got the national energy policy constantly being raised as an irritant. We would reassure them that, whether we liked it or not, the federal government was disbanding that policy. It seemed to be in the back of the minds of the Americans. As these negotiations were starting, it got shoved to the side because it was not concerning us and we did not think there was anything more they wanted. Obviously, they did, but I think they always had it in their minds.

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Mr. Morin-Strom: It is quite clear that the testimony today is one of the most devastating we have seen to this point in our hearings with the various ministries. It certainly confirms the fears of many Canadians in this energy sphere that we are seriously reducing our sovereign control over vital resources in our country.

I would like to know why you have not given us some specific recommendations on what we can do about it here in the energy sphere to assert our provincial rights and responsibilities and where we might be able to take actions as a province to thwart this agreement, perhaps on what areas we might be required to implement aspects of the agreement or where we may be able to legitimately move forward with initiatives, based on provincial responsibilities and authority under our Constitution to assert, as a province, our right to set our own energy policies separate from what might be demanded in this free trade agreement. What specifically might we be able to do here in the energy field?

Mr. MacOdum: We understood the request to be to come and discuss with the committee our analysis of the agreement as to exactly what its impacts are, and that is what we have tried to do. I think we have identified, where we can, the specific impacts in provincial jurisdiction, Ontario's jurisdiction, and they relate mainly to the electricity area.

Clearly, there are a number of other areas where the Ontario government can make representations to the government of Canada with respect to how it interprets, administers and clarifies the parts of the agreement that remain to be clarified and continue to reiterate its concerns about it while the matter is still not absolutely completed. I think that is what can be done.

Mr. Morin-Strom: Let us get into something more specific, point by point. Are you aware of any implementation, either legislation or regulations, that may be required in the energy field in Ontario?

Mr. MacOdum: Not that are required by the treaty, no.

Mr. Morin-Strom: So you do not believe there is any implementation demanded of the province.

Mr. MacOdrum: I think what we did identify was that it may place constraints on future actions, for example, as to the breadth of things that Ontario Hydro might do.

Mr. Morin-Strom: Looking at Ontario Hydro and electricity exports, once we have established that a percentage of our electricity has gone to the United States, historically or over any 36-month period, I take it, if in fact we have a shortage of sources of electricity in the province or decide not to develop further nuclear power plants or want to shut down obsolete plants here in the province and, as a result, do not have a surplus of electricity, are we obligated to build new plants in order to maintain our export levels to the United States?

Mr. MacOdrum: I think our electricity exports are largely of what is known in the jargon of the electricity business--they are energy exports, not power exports; that is, they are not capacity exports. There is no capacity on the Ontario Hydro system dedicated or promised to purchasers. We make energy sales of electricity to interconnected US utilities when it is available and when it is attractive in terms of its price.

Mr. Haggerty: It is not confirmed power.

Mr. MacOdrum: It is not, except for one small transaction with Vermont. There is one firm transaction. With the exception of that, I believe, certainly the bulk of our sales are of energy and are on an interruptible basis.

The extent to which the proportional access rules would override those factual interruptible terms is, I think, one of the remaining question marks of the agreement. Certainly in theory, they could. In effect, they could firm up some portion of an interruptible transaction. But I am not sure that was the intent in the negotiations. It was intended to continue to keep firm some portion of firm commitment. Perhaps Rick has been talking to the people in Ottawa about that.

Mr. Jennings: Yes. The proportional access provisions were really designed with oil and natural gas in mind. The way they are referred to in the agreement, it does cover all energy forms. So in the electricity area where you have really single provincial suppliers of it and you have this difference between firm and interruptible, it has a lot of inconsistencies between how it would be applied there and the sort of broad way it would be applied in natural gas and oil. There still are a lot of questions about how it would be applied.

Again, this agreement does not interfere with actual contract terms that are negotiated. In the cases of most export deals, there is some kind of contract that does allow, even in the case of a firm sale--the provincial utility would be able to interrupt sales if it needed to supply its own market. If that was in the contract, if there were certain conditions under which Ontario Hydro, for instance, could interrupt electricity sales and those conditions were met, it could do so.

What this agreement prevents is the National Energy Board from interrupting those sales and saying that power has to go to somebody else.

That is a power the board does not have at this time but has had in the past. For instance, they could not interrupt Hydro-Québec exports and say they are needed in Ontario.

Mr. MacOdrum: I think the short answer to your question is that we would have to build capacity for the US market to maintain our export levels or some proportion of our export levels. Our view is that is not likely to be the case.

Mr. Morin-Strom: While the language of the agreement does not talk about interruptible, it does talk about total energy.

Mr. MacOdrum: But it talks also, as Mr. Jennings has pointed out, about actions of the contracting parties, which would include the National Energy Board.

Mr. Morin-Strom: When it comes to long-term sales on an assured basis, I guess Hydro-Québec would be a more relevant situation than Ontario Hydro.

Mr. MacOdrum: Yes, or Manitoba Hydro. Manitoba Hydro makes long-term firm sales.

Mr. Morin-Strom: So they might be more vulnerable to this provision.

Mr. MacOdrum: Depending on what their contract terms are; certainly if they went and sought the concurrence or actions of the federal government to assist them in the curtailment of their export sales.

Mr. Morin-Strom: Can you tell us whether we will have the opportunity in this government or a future government to use energy pricing within the province as a tool for economic development in areas such as northern Ontario or rural Ontario where a strong argument can be made that either lower Hydro electric rates or, as arguments have also been made, lower gasoline prices relative to the current price levels might be an important economic stimulus for regional development.

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Mr. MacOdrum: We want to qualify it, but it appears that a government's ability to direct that kind of pricing policy is more limited now than it was previously. If the utility sought to do that and could justify it on commercial criteria, then it appears that those kinds of actions would continue to be permitted.

Mr. Morin-Strom: But if the Ontario government was to use the Ontario Energy Board, or a like agency, in the future to control and regulate pricing on a regional basis within Ontario, it would, in fact, be prohibited from doing that.

Mr. MacOdrum: This is an area of considerable uncertainty and was the subject of our discussion, I might say, with the people in the government of Quebec. Its format now is that Quebec's electricity rates do annually go to the cabinet to be approved, the quantity of their annual rate increase.

Certainly, a view we take of the agreement is that the ability to do that in the future appears to be constrained; that is, to use electricity

rates as economic development tools as a result of government direction appears to be constrained.

The view, though, that others take is that if that is done, based on commercial criteria, such as the rates recover the costs and the rates also included some commercial rate of return or a rate of return which is defensible on commercial criteria, then it would still be permitted. They would claim that, for example, the various incentive programs they have are commercially motivated and defensible.

Mr. Morin-Strom: This question was brought up two weeks ago in the Legislature in regard to subsidizing or reducing hydroelectricity rates in northern Ontario and the Premier (Mr. Peterson) basically thought we rejected that as an overall policy. However, he did state that the government is looking at doing that for the support of individual projects. In particular, he mentioned the possibility of a thermomechanical pulping operation being developed in northern Ontario, which would be a high energy user, and that the government might look at using that kind of energy incentive as an assistance to get a new operation off the ground in an area which has high unemployment and needs some stimulus.

Has the Ministry of Energy looked at how one might implement a form of assistance to a new operation in northern Ontario or some other area of the province which may benefit by that and, also, whether such a measure would be able to take place and continue once this free trade agreement is implemented?

Mr. MacOdrum: Ontario Hydro currently offers incentive rates for thermomechanical pulping to mills in Ontario, and I believe a number of them are currently taking advantage of those rates.

Mr. Jennings: It is specifically designed for mills converting to thermomechanical pulping. In this case, it might require a new incentive for a startup operation. They do have a rate for incremental power, additional power that you require because you convert to thermomechanical pulping. You can receive a discount, which I believe starts at 50 per cent the first year.

Mr. Morin-Strom: So we have a policy in effect there. Whether that would be the one that was used or whether--

Mr. Jennings: This was the rate that was developed by Ontario Hydro.

Mr. Morin-Strom: Is that permissible under the agreement, though, as it is currently in effect?

Mr. Jennings: This rate was developed by Ontario Hydro with the justification that it could sell power currently while there is some surplus, on the assumption that those conversions would take place eventually, anyway. So it was developed on commercial consideration, so presumably any type of challenge would be able to be defeated on those grounds.

This agreement does not say you cannot do this or you cannot do that, but it means that if you were to do something like that, there is another option where the Americans could challenge that instead of having to go through the trade remedy law, which they can now and which they still could after this agreement is in effect.

There is also a provision that says they can challenge any measure that they feel nullifies or impairs what they were expecting to get.

Mr. Morin-Strom: So it could well be up to this dispute settlement board to decide whether it would be a legitimate act.

Mr. Jennings: Yes. If it is something that does not bother anybody in the US, I guess you can certainly do it if no one there is going to object.

Mr. Morin-Strom: That is fine for now.

Mr. Chairman: We thank you very much. I appreciate that you spent longer than you expected to be spending with us, but obviously your presentation sparked a lot of interest and questions, and fortunately we had the time free at 11 a.m.

I appreciate your involvement with us. We have been considering also inviting Ontario Hydro to come, which will perhaps be a different perspective of the same view, I would imagine. I hope we can keep in touch with you as questions arise concerning this serious concern in this particular chapter of the agreement.

Mr. MacOdrum: Thank you, Mr. Chairman, and we will take a look at the request to see if we can do some quantification of benefit and costs, but as I did indicate, I have some concerns about whether we can provide something that would actually be useful to the committee.

Mr. Chairman: If you can at all, I am sure we would appreciate it and we would understand, of course, that there would have to be--

Mr. MacOdrum: The assumptions will be as long as the numbers will be.

Mr. Chairman: Some assumptions, yes. Thank you.

Mr. Ferraro: Could I just reiterate that if you could somehow--I realize it is difficult enough to try to analyse--if you could give us some specifics to a greater degree as to the supply and demand potential? I think that has a direct bearing on the whole thing, the suppliers saying they they want access.

Mr. MacOdrum: The bible that we all use on that subject--this is Canada-wide, but I think all people in the energy sector have input into it--is the reports of the National Energy Board on supply and demand. The most recent one is an October 1986 document, but it is our expectation that an update of that document is going to be released in the very near future. It certainly has not only the recent historical data on trends in all energy forms and supply-demand balances but also projections for the future under a number of scenarios. The ministry also produces a demand forecast just for Ontario for all energy forms going out 20 years, and we would be delighted to make those available to members of this committee.

Mr. Chairman: Thank you. I have a couple of housekeeping matters. First of all, we move to room 228 this afternoon, so those watching on television will be watching another committee this afternoon.

We have the Ministry of Financial Institutions at two o'clock. Some time thereafter, when they are finished, we will have a joint presentation from the Ministry of Labour and the Ministry of Skills Development. They requested as they were putting their presentations together that they make a joint one, and that seems to make some good sense.

Mr. Morin-Strom wanted to raise a matter concerning the American Bar Association meeting in Washington.

Mr. Morin-Strom: Yes. I understand we do not have a formal resolution from the committee authorizing a subcommittee to attend this session, which seems to have a very good agenda.

Mr. Beer: Did we not move--

Mr. Chairman: A resolution was passed. I think there is some question as to what it said. I thought it said one member of each party, but Mr. Carrozza is now saying it said to send a subcommittee?

Mr. Beer: I recall that it said there would be one person from each party because there was some discussion about what the normal practice was.

Mr. Morin-Strom: I want to know if it makes a difference in terms of the funding. Maybe the clerk had better let us know what the situation is.

Clerk of the Committee: If it is a member from each caucus, that means that each party will have to pay for it, but if it is a subcommittee, then the committee pays for it.

Mr. Chairman: Oh.

Mr. Mackenzie: It should be a subcommittee.

Clerk of the Committee: Then could I suggest you pass a motion to that effect, that a subcommittee travel to Washington?

Mr. Chairman: How big is the subcommittee going to be?

Clerk of the Committee: It is one member from each party, Mr. Chairman and a clerk.

Mr. Beer: So moved.

Mr. Mackenzie: I would support that.

Mr. Chairman: If the Clerk is going to be sent--

Clerk of the Committee: The Clerk is not going; a clerk will be going with you.

Mr. Chairman: But if a clerk is coming with us, it would seem appropriate that the researcher should come with us.

Mr. Mackenzie: I have no difficulty. The agenda seems to be that we are free to choose to some extent.

Mr. Ferraro: It probably makes more sense to have the researcher than the clerk, with respect.

Mr. Chairman: Perhaps the chairman of the committee as well. I do recall the chairman being sent to an event one other time without the clerk.

Clerk of the Committee: It was not a subcommittee then.

Mr. Beer: It was pointed out simply to ensure that there would be one person from each party. To do it through the subcommittee route would make sense, but I do not know that we--

Mr. Morin-Strom: It would also make it a more official activity of the committee, as opposed to private activity, which I think it should be, because the agenda does look very good.

Mr. Chairman: It may be that this is the proper way to do that. It certainly was not the impression I got yesterday when we passed it. I signed a letter and sent it to the House leaders asking them to pay for it.

Clerk of the Committee: No, it did not say to pay for it. All it asked was permission to go.

Mr. Chairman: Oh, I see. So we need a new resolution.

Clerk of the Committee: That a subcommittee go to Washington.

Mr. Chairman: Any discussion? All in favour? Opposed? Carried.

The committee recessed at 12:14 p.m.

CA20N
XC25
-F32

F-10

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

THURSDAY, JANUARY 21, 1988

Afternoon Sitting



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)
VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)
Haggerty, Ray (Niagara South L)
Kozyra, Taras B. (Port Arthur L)
Mackenzie, Bob (Hamilton East NDP)
McCague, George R. (Simcoe West PC)
Morin-Strom, Karl E. (Sault Ste. Marie NDP)
Neumann, David E. (Brantford L)
Nixon, J. Bradford (York Mills L)
Pelissero, Harry E. (Lincoln L)
Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Beer, Charles (York North L) for Mr. J. B. Nixon
Sterling, Norman W. (Carleton PC) for Mr. Villeneuve

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Ministry of Financial Institutions:
Davies, Bryan, Deputy Minister

From the Ministry of Labour:
Thompson, Glenn R., Deputy Minister
Saunders, Ronald, Manager, Policy Branch
Sadlier-Brown, Peter, Assistant Deputy Minister, Labour Policy and Programs
Shardlow, Harry, Director, Employment Adjustment Branch
Ignatieff, Nicholas, Director, Policy Branch

From the Ministry of Skills Development:
Carr, Glenna, Deputy Minister
Horswill, Les, Assistant Deputy Minister, Policy and Development Division

ERRATUM

In F-5, page F-35, line 6 should read:

Ms. Delagran: Any kind of Industrial and Regional Development Program

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday, January 21, 1988

The committee met at 2:08 p.m. in committee room 228.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: Perhaps we could get started. We have with us this afternoon Bryan Davies, deputy minister of the Ministry of Financial Institutions. This agreement has a number of ramifications on your ministry, and I am sure we are going to have a lot of questions, if you would care to open with a statement. We will then puncture that statement, if we can.

Mr. Davies: I will look forward to that. I did take the time to do up some notes and highlights of how I see the free trade agreement having a potential impact on financial services. If it would be useful, I could share that with you.

There are several chapters in the free trade agreement that deal either directly or indirectly with financial services. It is important to note right at the outset that there is a major distinction made between the various types of financial services in the agreement. In particular, insurance is treated separately from the other institutions in the sector.

The chapter under which financial institutions, excluding insurance, is covered is chapter 17, indeed, the one that is titled "Financial Services." Insurance is treated along with other services and is basically dealt with in three chapters: chapter 14 on "Services," chapter 16 on "Investment" and chapter 20, which deals with a variety of "Other Provisions" including monopolies.

What I propose to do is to summarize briefly the key aspects of each of the chapters that are relevant to financial services, at least in my view, and to cite the relevant details from those chapters.

Let me begin with chapter 14, which is the chapter dealing with services. The first article of chapter 14, 1401, defines the elements of services covered by the chapter and indicates that it is subject to the chapter 16 on investment.

The elements are described as:

- (a) "The production, distribution, sale, marketing and delivery of a covered service and the purchase or use thereof;
- (b) "access to, and use of, domestic distribution systems;
- (c) "the establishment of a commercial presence...and;"
- (d) "...any investment for the provision of a covered service...."

As you can see, that is a very broad, encompassing definition of the elements that are to be covered.

Article 1402 of that chapter indicates that the two governments agree to extend the principle of national treatment to the providers of a list of commercial services that are outlined in an annex to the chapter. That annex specifies insurance services, which are defined as "insurance services, segregated and other funds services (managed by insurance companies only)." They would be such instruments as variable contracts and pension plans administered by insurance companies, insurance agencies, insurance brokerage services. All those activities are under the broad heading of insurance services and are proposed to be covered under that chapter.

As I am sure members of this committee know, the principle of national treatment would require that Canada and the United States not discriminate between Canadian and American providers of these services. This does not mean that Canada is obligated to match or harmonize its rules with those in operation in the US but, generally speaking, it requires that rules applied here do not discriminate between Americans and Canadians.

Paragraph 3 of article 1402 does contemplate some differential treatment. There are limitations on how Canada may treat providers of services differently, though. Under the terms of that article, differential treatment has to be for "prudential, fiduciary, health and safety, or consumer protection reasons." Under this article, the parties would have to justify the need for differential treatment.

Moreover, paragraph 8 of that article precludes any measure that is seen as "disguised restriction on bilateral trade." The paragraph makes special reference to measures "requiring the establishment or commercial presence...as a condition for the provision of a covered service." I am focusing on that because these provisions could have impacts on provincial jurisdiction because of provincial responsibility for consumer protection. Any form of differential treatment by Canadian or US governments is subject to appeal by either side to the standard dispute settlement process that is outlined elsewhere in the proposed free trade agreement.

Article 1403 specifies that governments remain free to license and to certify standards for services that must ensure that such standards relate primarily to competence or ability to provide the service and should not be discriminatory or designed to limit access to the marketplace. The article also states that Canada and the US agree to "encourage the mutual recognition of licensing and certification requirements." Again, this is an area that is historically under provincial jurisdiction.

While the obligations of national treatment are prospective and do not necessarily require governments to change existing rules, article 1405 indicates that Canada and the US should endeavour to modify or eliminate existing measures or provisions which are inconsistent with the principles of the agreement.

There is a provision in chapter 14--and I close with that provision of that chapter--that is designed to prevent what I call "backdoorings." It states that the benefits and provisions of the agreement may be denied if a service coming from the US or Canada into the other's jurisdiction is, in reality, being provided indirectly by a third country.

Let me now turn to chapter 16, the investment chapter. It, too, could apply to insurance because insurance is seen as a subset of general services under chapter 14.

Chapter 16 applies to any measure affecting investment within Canada or

the US, except those defined as financial services. As I noted earlier, these are treated in their own chapter, which I will speak to in a moment. I just remind the members that insurance services are not part of that exclusion. They are not defined as financial services for the purpose of this agreement.

In the investment chapter, article 1605 is of some interest, I suggest, as it deals with expropriation. It states that Canada or the United States shall not directly or indirectly nationalize or expropriate an industry or service except "for a public purpose; in accordance with due process of law; on a nondiscriminatory basis, and upon payment of prompt, adequate and effective compensation at fair market value."

I indicated at the outset that there is another chapter that applies or, in my view, could apply or could have significance for insurance. That is chapter 20 on other provisions. In that chapter, article 2010 states that prior to designating a monopoly, and where the designation affects a Canadian or US industry or service, that government affecting a monopoly shall notify the other party and engage in consultation, if requested, and also endeavour to introduce conditions on the operation of the monopoly to minimize or eliminate impairment of benefits under the agreement.

Where a monopoly is created, the government shall ensure that it does not engage in anticompetitive practices through price-fixing, cross-subsidization or predatory conduct. I note that the Attorney General (Mr. Scott) mentioned these aspects of the free trade agreement in his speech to the Canadian Bar Association back in December. He noted that the monopolies provisions constitute a major infringement on the provincial right to establish owned or regulated monopolies.

I stress again that it is only insurance that is subject to the provisions I have outlined from the services chapter, 14, the investment chapter, 16, or this provision in chapter 20.

The other major chapter of the free trade agreement that impacts on financial institutions other than insurance is the chapter that they call "Financial institutions," chapter 17.

It is significant to note that the provisions of this chapter do not--and I emphasize "do not"--apply to provincial or state laws and, hence, only cover federal provisions. For this reason, the chapter is directed, essentially, from a Canadian point of view at any rate, at chartered banks, since they are strictly within federal jurisdiction.

Mr. Chairman: Why do you say that?

Mr. Davies: Because all its provisions do not apply. None of its provisions apply to provincial regulations or regulatory matters or, for that matter, in the US to state regulations or regulatory matters.

It is also important to keep in mind that, as with other elements of the proposed free trade agreement, the provisions of this chapter will become effective only after January 1, 1989, so it does not necessarily cover the period between now and January 1, 1989.

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The first article of chapter 17, article 1701, states that the dispute settlement process does not apply to financial services. While it is not

indicated in the article as such, it is indicated in companion documentation released by the governments that it is the intent of the United States and Canada to have consultations take place between the US Treasury Department and the federal Department of Finance. These consultations, presumably, would be a substitute for what otherwise would be the dispute settlement process that applies to other elements of the agreement.

Article 1702 of the chapter would permit Canadian banks and affiliates, for example, a securities dealer subsidiary, to engage in underwriting and trading of Canadian and provincial governments debts or guaranteed debts of their agents in the US. Also, Canadian banks already operating in the United States would continue to receive exemptions from the interstate banking laws.

The United States also would accord to Canadian-controlled financial institutions the same treatment as that accorded to US financial institutions with respect to any amendments that might be made in the future to the Glass-Steagall Act. That act currently rigidly separates commercial banking from investment banking or securities dealing.

Under provisions contained in chapter 17, both governments commit to further liberalize their rules governing financial markets over and above the specific adjustments proposed for Canadians operating in the US and US firms operating here.

The third article in the chapter provides US firms with an exemption from restrictions that currently limit foreign ownership of Canadian-controlled financial institutions. That article spells out the particular sections of federal legislation that would be waived. Those relate to the Investment Companies Act, their loan act and their trust act, their insurance and the Bank Act.

Canada would also exempt United States-controlled bank subsidiaries individually and collectively from the limitations on total domestic assets of foreign bank subsidiaries.

Members of the committee are probably aware that right now the total assets of the so-called schedule B banks, foreign banks, are restricted to 16 per cent of the total assets of the system. That control path would be waived under this free trade agreement for American-controlled bank subsidiaries. Also, the limitations that apply to individual schedule B banks right now, with respect to the amount of capital they might have, would also be waived under this free trade agreement.

Finally, Canada agrees that it will not use its review powers governing entry of United States-controlled financial institutions in a manner inconsistent with the aims of the agreement.

Article 1704 commits Canada and the US to public notice and consultation on legislation in this area. My understanding of that is that if there were to be changes in legislation, there would have to be notice to the other side.

The second last article of the chapter, article 1705, provides that benefits may be denied if there is an indirect control of financial services by a person of a third country. This is the same sort of anti-backdoor clause that I cited in the insurance section.

Finally, article 1706 defines various terminology used in the chapter on financial services.

In summary, in the financial services area, much of the free trade agreement would not apply to provincial regulators or regulations. It would apply, however, and potentially have significant impacts on provincial regulatory capacity in the area of insurance, since these are defined with all other services.

Those were the remarks that I jotted down, sir, but I could elaborate on any of those or take questions.

Mr. Chairman: I am looking around and everyone is spellbound. Mr. Ferraro.

Mr. Ferraro: I apologize, first to you, Mr. Chairman, for being a little late. Mr. Davies, maybe you have alluded to them, but could you elaborate for me on two things? One is the extent to which--and I am dealing not with the insurance companies but with the trust companies which, of course, come under the regulation of Ontario and, if you are federally chartered, to some degree there as well--what is the mood now as far as most trust companies in Canada are concerned? Are they going for a federal charter or are many trust companies specifically just Ontario-chartered? Will it affect them in any way with specific regard, if you will, to the ownership?

Mr. Davies: I hesitate to comment only because I am not in the industry and do not know the trend and pattern right now, whether an individual or an organization wishing to incorporate would choose a federal charter or a provincial charter. In the past, there has not been that significant a difference. The majority of companies operating in Ontario are federally chartered but I do not think there has been any particular pattern--

Mr. Ferraro: Let me re-ask the question. If you are federally chartered, do you still have to be chartered provincially?

Mr. Davies: You still have to be licensed provincially. In order to do business in Ontario, you have to meet Ontario standards regardless of where you are incorporated.

Mr. Ferraro: Right.

Mr. Davies: That was the first question I heard you ask. With respect to how the free trade agreement might affect provincial regulation of trust companies, as I indicated, chapter 17, which is the section that applies to financial institutions other than insurance, says it does not apply to provincial rules. Our rules do not change. Our rules would not be impacted by this.

Mr. Ferraro: Right.

Mr. Davies: You asked, though, a third part to your question which is a very interesting question and that is, to the extent that federal rules change, will that cause complications for those federal companies doing business in Ontario?

Mr. Ferraro: Yes.

Mr. Davies: I guess at this stage there is a possibility that--let me step back. Right now, the federal loan and trust act, including the draft just released of its new bill, has a provision in it that while a brand new trust company, a new startup, can be foreign owned, the takeover of an

existing federally incorporated trust company is subject to a 10-25 rule. You will recall from when we were here discussing Bill 116, that is precisely paralleled in the current Ontario Loan and Trust Corporations Act. Part of the reason for that paralleling is for harmonization of policy across the country and between federal and provincial governments.

If the federal government moves, as this free trade agreement would imply, to eliminate that 10-25 restriction for takeovers with respect to Americans taking over an existing Canadian-owned trust company, the question then becomes, "Are you going to do business in Ontario?" I think that could indeed create a complication. I have not had a legal opinion provided to me as to whether or not it would, but just on the surface, for example, under Bill 116, as I recall the registrar has to approve transfers of ownership in excess of 10 per cent. I am not certain that we would be permitted to approve transfers of ownership in excess of 10 per cent when those very transfers would not be in the spirit of our act, which has in it now the 10-25 rule.

I can get back to you with a more precise answer on that, but I suspect you have highlighted an issue that could create a complication for a federally incorporated trust company that is now Canadian controlled to do business in Ontario in the future and was taken over by an American--

Mr. Ferraro: I am sorry. Did you say that in your opinion, at least at this juncture, and I realize it is somewhat hypothetical and speculative, it appears the federal government will move in that direction?

Mr. Davies: The free trade agreement in fact compels them to. In the actual agreement, I think it is article 1703 that specifies the sections of which acts they are going to change. In there is the Loan Companies Act and the Trust Companies Act. That would be paralleled in their new legislation.

Mr. Ferraro: It is conceivable then that they could say your 10 per cent restriction does not apply.

Mr. Davies: That is what they are proposing. They are saying to Americans: "That will no longer apply to you. You can come in and buy an existing--

Mr. Ferraro: As much as you want; one person.

Mr. Davies: You can buy as much as you want.

Mr. Ferraro: It really skews the Ontario regulation, does it not?

Mr. Davies: Excuse me. I see what you are getting at. The federal government at the same time has a policy about widely held ownership which is separate and apart from this free trade agreement, but would impact on this free trade agreement.

1430

Mr. Ferraro: Would this free trade agreement, though, not have precedence unless specific exemption is given? Is there any indication that that exemption is going to be given?

Mr. Davies: No, the concept will be national treatment. Those same

rules that say you cannot have any one person owning more than X per cent of a trust company--

Mr. Ferraro: Right.

Mr. Davies: --that they will apply to Canadians, equally they could, therefore, apply to Americans because that is the concept of national treatment.

Mr. Ferraro: Which one would have priority though, in your opinion?

Mr. Davies: The national treatment concept in this free trade agreement would make them both the same.

Mr. Ferraro: In other words then, Ontario could no longer enforce the 10 per cent restriction on ownership.

Mr. Davies: Again, I hesitate to give you a firm answer on that. I will be pleased to get back to the committee with an observation.

Mr. Ferraro: Maybe he could, Mr. Chairman, because I think it is of significant importance considering the fact that as a committee we just dealt with Bill 116.

Mr. Chairman: Could you explain the Glass-Steagall Act and the proposed amendments.

Mr. Davies: Yes, or I can certainly explain the act as it is now written. There are various proposed amendments floating around. The Glass-Steagall Act was introduced in the United States back in the 1930s. Essentially, it separates very rigidly commercial banking, which is the normal bank lending, from investment banking or securities dealing. Essentially, it says that no bank operating in the United States of America can be in both businesses. This was an outcome of the 1929 crash when a post-mortem on that suggested the banks were doing too much of everything and there should be a complete separation of the two functions.

That legislation, which is some 50 years old now, remains in place in the United States and applies to American banks operating in the United States. There has been a very strong lobby from the so-called money centre banks in New York led by Bankers Trust, Citibank and a number of others to get that law changed because in the modern age of globalization of markets, the difference between bank lending and securitization or lending on the basis of security rather than on the basis of assets has been diminishing. The banks see themselves losing their customers to the investment dealers, to the Salomons and the Goldman Sachs of the world. The American banks have been arguing that Glass-Steagall should be opened up.

The matter becomes very important and very significant for Canadian banks and Canadian securities dealers wishing to do business in New York because, as you know, as a result of the policies of the Ontario and federal governments, and for that matter the Quebec government and other provinces, we do not have that restriction any longer in Canada preventing a bank from having an interest in a securities company.

To use an example that was just in the paper this morning of two companies, the Royal Bank of Canada and Dominion Securities are now affiliated, Dominion Securities having been bought to the tune of 75 per cent

by the Royal Bank. Right now, both of them have operations in New York City. The bank is in the banking business and Dominion Securities is in the investment dealing business. Under Glass-Steagall, one of them has to get out of one of the businesses because now they are operating in the United States doing both commercial banking and investment banking and that is a no-no under Glass-Steagall. That is why the Canadian government, I suggest, paid so much attention to Glass-Steagall in this document and why it is specifically referenced.

The Glass-Steagall, as I mentioned, has been under great challenge from American banks over the last several years, so much challenge in fact that about this time last year Senator Proxmire's committee on banking and finance, a Senate committee in Washington, decided to place a moratorium on any changes to Glass-Steagall. That is in place until March 1 of this year. That moratorium is designed to calm down the heat a little bit and give various organizations and government entities time to look at how Glass-Steagall might be changed and when.

I believe the Canadian Bankers' Association is appearing before this committee in the not too distant future. I know the bankers' association has been monitoring this extremely carefully and closely in Washington. I am sure they would have very up-to-date information on the state of play at Congress, but it is my understanding that there could well be, some time in the next 12 to 18 months, a liberalization of Glass-Steagall.

Mr. Chairman: What have we obtained in this agreement in article 1702?

Mr. Davies: My reading of what the Canadian government obtained on behalf of Canadian institutions is that if and when Glass-Steagall is changed for American banks, then Canadian banks will get the same treatment that American banks get.

Mr. Chairman: Can the administration promise that?

Mr. Davies: I do not think they are promising change. They are just saying, "If change occurs, we will let you ride on the coattails as well." I cannot speak to their capacity to make that undertaking.

Mr. Chairman: I presume it would be that once the agreement is passed by the Congress, the Congress is bound to do that. Is that the theory?

Mr. Davies: That is beyond my competence to understand how the American system of approvals works.

Mr. Mackenzie: Just what does that mean to us in effect for a real layman like myself? If they change the system, we can take advantage of it. What have we actually negotiated there?

Mr. Davies: Again, I can only do as you can do, which is read these words. It appears that the Canadian government has negotiated an undertaking from the Americans that if and when things are changed, Canada can get the same benefit. That is with respect to Glass-Steagall. There are also several other provisions in the relevant article that were obtained. One of them is the undertaking that trading in Canadian government debt or debt guaranteed by Canadian governments can be pursued by Canadian banks and their affiliates. That is of significance because that is, in great extent, the sort of business

the Dominion Securities of the world participate in in New York at the present time.

Mr. Mackenzie: Were we not eligible to get that same treatment in any event, maybe not quite as easily, with the kind of arrangements that were being made such as the bank and its buyout of the securities operation?

Mr. Davies: It is my understanding. Mr. Mackenzie, that those sorts of transactions have not been impeded in the past, but perhaps the argument on the other side would be that at some time in the future maybe they would have been constrained, save and except for this agreement.

Mr. Mackenzie: We might have got something and we might have a problem if we did not sign this agreement. There is absolutely nothing there otherwise.

Mr. Davies: I have difficulty finding an awful lot of benefit there.

Mr. Mackenzie: It boggles the mind, the more we get into it.

Mr. Chairman: On the other hand, we have at the moment 25 per cent maximum ownership of foreign investors in our banks.

Mr. Davies: That is correct.

Mr. Chairman: We are giving that up.

Mr. Davies: That is being waived under this proposed agreement.

Mr. Mackenzie: One person could own as much as he wants.

Mr. Davies: Mr. Ferraro has left but he wisely reminded me that there are other rules that apply to Canadians, as well as to Americans, and one of those rules is the rule that would remain, as I understand it, in the Bank Act that no one entity or individual may own more than 10 per cent of a bank. Hypothetically, there would be nothing stopping 11 Americans owning 9.9 per cent each of a bank. Right now there is because there is an aggregate foreign ownership limited to 25 per cent.

Mr. Chairman: Would you like to see this agreement carried out?

Mr. Davies: Personally?

Mr. Chairman: No, from your ministry's point of view.

Mr. Davies: As I have pointed out, from the point of view of a provincial regulator, the lion's share of our activity, save and except for insurance, is not impacted by this. We do not have jurisdiction over chartered banks. That is not a matter that directly affects us.

From the point of view of ensuring that Canadian entities, Canadian securities dealers, Canadian banks involved in securities business can participate fully and actively in the international marketplace, it would be very useful to get exempt from the restrictive provisions of the Glass-Steagall Act that are now in place. If this agreement guarantees that--I suggest there is no guarantee in it; it just says that if the Americans exempt themselves they will exempt us--that is the benefit I see accruing.

With respect to insurance, I do have some concerns over the extent to which the consumer protection provisions we now have in a number of our statutes, some of them in the Insurance Act and also in a number of our other statutes, but particularly impacted by this free trade agreement potentially could be insurance--there are a number of those consumer protection clauses such as a residency requirement. We require someone who is a general insurance broker in this province to be physically resident here because that allows us to monitor him very closely and so on.

1440

If something like that was challenged under the dispute settlement mechanism as being an attempt to constrain or limit the market to Americans trying to do that business in Canada, and that challenge was upheld, then I think we might be running the risk of losing some of the consumer protection mechanisms we currently have in this province.

Mr. Mackenzie: I may not have got it--I was a little late and I apologize--but if Ontario decided it wanted to establish a provincial auto insurance plan, for example, is that in any way impeded or prevented or made more difficult by this?

Mr. Davies: I guess it was before you came in, sir. I did cite the observations made by the Attorney General (Mr. Scott) in a speech back in December, where he suggested that indeed in his view, his reading of the bill, the monopoly section, article 2010, would constrain and limit a provincial jurisdiction's capacity to pursue such an arrangement.

Mr. Mackenzie: On the basis that we are interfering with the private sector and constraining it. Is that what you are saying?

Mr. Davies: The article states, and I could go over it, that prior to designating a monopoly where the designation might affect a US industry or service, the government shall notify the other party, engage in consultation if requested and also endeavour to introduce conditions on the operation of the monopoly to minimize or eliminate impairment of benefits under that agreement.

Mr. Mackenzie: Knowing the position of the insurance industry, it sure as hell would make it almost impossible to institute a province-wide provincial plan, it seems to me, with that kind of wording. Would this have any effect on what may be a coming battle in this province over private health care operations? I guess I could put it another way and ask, if we did not have the kind of health insurance we have in this province, would we have been able today to institute it if we had this agreement in place? I am thinking more of the move into this province, which we are beginning to see, in terms of private corporations that deal in nursing homes, in running hospitals and you name it. Does this impact in any way at all on--

Mr. Davies: That is out of the sphere of financial institutions, but I did bring along Mr. Scott's speech. He makes the note: "Provinces have often created comprehensive public insurance schemes, such as health and automobile insurance plans...the investment chapter of the agreement makes creation of any future schemes subject to a requirement to provide 'prompt, adequate and effective compensation,'" something I also mentioned in my opening remarks. "The agreement also makes future federal and provincial public insurance plans subject to challenge under the monopolies chapter," the item I just cited.

While it is outside the sphere of financial institutions, I imply from what Mr. Scott says that the same philosophies would apply.

Mr. Mackenzie: The same philosophy could very well apply if we end up in a battle eventually, because of costs, over areas like extended care or nursing homes as to whether it should be, not a private but a publicly funded operation, with a major move of some companies that in some cases in the US are hundreds of millions and billions of dollars into the health care field. They would be considered private. There seems to be a marketplace orientation in this agreement.

Mr. Davies: Having focused on financial services, I have not read through the annex to the services chapter to assure myself that medical services of the type you have cited are covered, but I do recall from a general reading that I believe they are.

Mr. Mackenzie: I am sorry if I got sidetracked a bit there, Mr. Chairman.

Mr. Chairman: Going back to the ownership of banks and the integration of banks, which is really what we are looking at, and bearing in mind that the Bank of Canada has a healthy interrelationship with our chartered banks in that it controls a lot of monetary policy through its relationship with the chartered banks, are we going to have a problem in the future continuing to control our own monetary policy?

Mr. Davies: I would note, to the best of my knowledge, based on a reading of this agreement, that the only sections of the Bank Act that are being changed are those sections applying to the ownership limitations. I would presume that all the other terms and conditions of operating a bank in Canada would remain the same. To the extent that those other provisions are used to ensure adequacy of monetary policy, they would stay in place.

Mr. Chairman: In other words, you are saying that even if the Americans owned the Royal Bank, we could still control its activities through the rules of monetary policy.

Mr. Davies: I would suggest that raises the question of does it matter who owns the bank or does it matter what rules the bank has to play by. Keep in mind, as has been pointed out, there is no indication--in fact, just the contrary--that the government of Canada plans to change the rule that currently mandates that no individual may own more than 10 per cent of a bank.

Mr. Mackenzie: As I understand it, many of the banks in the states are under state control; maybe all of them, as far as I know. What kind of ability, if any, is there for these various banks to move into operations here in Canada, and does the fact that their control by state in any way relieves them of any obligations they would have in terms of the national interest in this country?

Mr. Davies: I do not know whether in their home jurisdictions there would be prohibitions or limitations on them expanding in Canada, but looking at article 1703, if I am understanding your question correctly, the article says very clearly, "United States persons ordinarily resident in the United States," and that can mean any individual state, "shall not be subject to restrictions that limit foreign ownership of Canadian-controlled financial

institutions." My reading of that suggests that they can come into Canada without any ownership restriction.

Mr. Haggerty: In your comments on monetary policy, you started out with chapters 14, 16 and 20. Chapter 16 is the investment area, chapter 20 is the monopoly and then you went on to article 14, the national treatment or the level playing field we have often heard of so much about in this free trade arrangement with the United States, and not to discriminate.

The chairman talked to you about the monetary policy in this area. Is there the possibility that if we were to accept the agreement under today's terms, we would lose control of Canada's monetary policy?

Mr. Davies: Again, I guess I come back to the answer that I gave to the chairman about the terms and conditions of the Bank Act that are affected by this agreement, at least on the surface; our own rules relating to current ownership foreign ownership restrictions on Canadian banks. There are no other terms and conditions of the Bank Act that are impacted here.

Mr. Haggerty: Then we move into the area of the dollar value between American and Canadian currency, the differential in rates that is there now. I think our dollar is worth about 78 cents or something like that.

Mr. Davies: That would be on a very good day.

Mr. Haggerty: That is right. But suppose the differential, the gap, closes. I was a member of the select committee dealing with Ontario Hydro and its expansion program. We had some experts in this area who forecast that by the year 1995, quoting from memory, there would be a five per cent differential between the Canadian and American dollar. The American would be the higher.

When you get into this area and you tie our monetary value in with American monetary value, the banks and investment companies that are controlling the industry, you could end up with a monopoly in the area. Really, when you look at it, we could be losing control over our financial institutions here in Canada.

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When we talk about the value of the American dollar related to the area of the trade deficit, either way that fluctuates, either one could increase the deficit. In other words, if our dollar increased, let us say it became parallel with the American dollar, we could reduce their deficit but increase ours.

How do you control that type of financial business that goes this way? If you can get control of our energy and our resources, then get control of our financial institutions, the pension funds, where Canadians are the most thrifty people in the world, tie that into it, what we are going to do in this trade agreement, if we are not careful, is bail out the American deficit. Is this the way we should be heading? Has anybody done any studies in this area?

Mr. Davies: I am not certain whether the macroeconomists would have done that sort of analysis. From the point of view of financial institutions, this free trade agreement becomes relevant to the extent that it affects ownership provisions and to the extent that it would apply any constraints or limitations on a regulator, at the provincial level, at any rate, or a

regulator's capacity to have rules and procedures that are deemed to be appropriate for protecting the consumers of a particular province.

I would suggest your question with respect to control over monetary policy and the impact of monetary policy is one that can be answered depending on one's view of how important ownership of an institution is as opposed to how important are the rules and regulations those institutions have to honour.

Mr. Haggerty: Yes, but I am going to go to the conclusion of this document that I have before me. This is a background study on Canada-United States free trade, the exchange rate and the policy of the Ministry of Treasury and Economics, government of Ontario, put out in 1986. The conclusion of this document really sheds more light on what I have said. In the conclusions, it states: "The exchange rate, protectionism and trade policy are all linked in the politics of the Congress. This link led the United States administration to negotiate the September 1985 agreement of the G-5 reducing sharply the value of the American dollar." The G-5 was five countries. That has recently been expanded to include Canada and Italy. There are seven now.

"One of the issues to be discussed in this new group is the exchange rates between numbered countries. The Canada-United States exchange rate already has been raised as an issue in the Congress, since Congress had the ultimate authority to approve the Canada-United States bilateral trade agreement. Exchange rates and trade policy will invariably be linked in the short run. The long-run result could be a more formally managed exchange rate system." That is maybe the advantage out of it, but reading between the lines there could be a shortfall here for Canada. I have no further questions.

Mr. Morin-Strom: I would like to ask about insurance. Do you say that this has implications in terms of the ability to establish a government insurance operation, for instance, in the automobile area? At least, the Attorney General (Mr. Scott) said that. Do you confirm his statement?

Mr. Davies: In my reading of the sections that are referenced in the Attorney General's speech, yes, I would arrive at the same conclusion.

Mr. Morin-Strom: What are the implications for existing plans, as in the western provinces?

Mr. Davies: I believe there is an override in the free trade agreement that basically says everything that is in place stays in place, as a general philosophy in the overall free trade agreement, but it deals with prospective laws.

Mr. Morin-Strom: Are you saying there is an override specifically for that or generally in the agreement as a whole?

Mr. Davies: Just general; general in the agreement as a whole.

Mr. Morin-Strom: I guess it would be nice to know where that exists. I feel a lot of the provisions of this agreement include compelling governments to take an active role to bring various aspects of the legislation affecting trade into compliance.

Mr. Davies: That is an undertaking to move to make sure there is nothing that exists currently that would be in violation of or contradictory to the intent of the new arrangement, the new free trade agreement. I can just

cite the sort of language that appears in the financial services docket that I am familiar with.

It says, "The United States of America shall, subject to Canada's commitment to consult and to liberalize further the rules governing its markets and to extend the benefits of such liberalization to the US-controlled financial institutions..." they will do the same. So they are undertaking here, they are committing, to review existing rules to see if any of those should be changed, but I do not read that to say that they are compelled to change existing rules.

Mr. Morin-Strom: What about in other areas of the insurance field besides auto? Would the same problem exist for attempts to build a government comprehensive liability insurance program?

Mr. Davies: The sections the Attorney General cited on expropriation and on monopolies are generic sections that apply to all services.

Mr. Morin-Strom: Finally, in the area of banking, we heard a couple of horror stories of banks going bankrupt out in Alberta recently, but in the United States it is a much more frequent occurrence that banks go under, particularly I think savings and loan type institutions. What kind of protection do we have that a banking system which seems to be much more vulnerable to collapse of banks could be moving into our territory, and how can we be sure that banks that establish operations here in Canada under this open trade agreement will afford consumers the same protections and security of their deposits that are assumed with our major chartered banks?

Mr. Davies: I suggest the answer that those who are supporting the free trade agreement would make is that all financial institutions operating within Canada are going to be subject to Canadian laws, the concept of national treatment, and providing that the rules and regulations that apply to Canadian-owned financial institutions operating here are applied to American-owned financial institutions operating here, one would hope that your concerns regarding solvency and prudence would be taken care of.

Mr. Morin-Strom: When they come to operate here, would they be operating as a branch of an American bank or do they have to establish a separate corporate entity which would have to have its own security and protections distinct from liabilities and risks of the loan practices and operations in the United States?

Mr. Davies: The sections in the Canadian Bank Act would govern that. Again, this is not a statute over which we have any authority or responsibility, so I am not intimately familiar with it, but I would think the Bank Act provides that they would be bank subsidiaries, that they would be separate legal entities here in Canada.

Mr. Morin-Strom: And independently financially secure?

Mr. Davies: Having to meet whatever requirements are spelled out in the Bank Act as to their own capitalization, unimpaired capitalization. Again, I am afraid I am not expert in the federal Bank Act to be able to give you chapter and verse on those.

Mr. Morin-Strom: So, hopefully, if a parent bank collapsed in the

states, it would not create a liability on the subsidiary bank in Canada which would drag it under as well?

Mr. Davies: Hopefully, yes.

Mr. Chairman: Thank you very much. We appreciate very much your assisting us. Hopefully, we can continue to count on you for your assistance.

The next presentation is going to involve setting up visual assistance, so perhaps we will take a short recess of approximately five minutes before we start. It will involve a joint presentation from the Ministry of Labour and the Ministry of Skills Development.

The committee recessed at 3 p.m.

1507

Mr. Chairman: Perhaps we can get started now. We have with us from the Ministry of Labour the Deputy Minister, Glenn Thompson. Mr. Thompson is going to present a presentation which is essentially that of the Ministry of Labour. He will be joined in approximately half an hour by Glenna Carr, the Deputy Minister of Skills Development, who will present her ministry's presentation. It was thought by one or other of the two ministries that it might not be a bad idea to do this as a joint presentation, because their concerns are so similar, and that seemed to make some sense.

Mr. Thompson, perhaps you could introduce the gentleman with you and then present your concerns to the committee.

MINISTRY OF LABOUR

Mr. Thompson: We are very pleased to have the opportunity to meet with you.

Let me do just what you said, and that is introduce the staff who are here with me. Many of you will know Peter Sadlier-Brown as our assistant deputy minister of labour policy and programs. On my right is Ron Saunders, who is with our policy branch and who will be making a presentation in a few minutes on this overhead apparatus. Behind us here--and they will join us in the question period--are Harry Shardlow, who is the director of the employment adjustment branch and who is much involved with those various closure situations that you hear about, and Nicholas Ignatieff, who is the director of our policy branch as well.

Just to comment on your mention of the Ministry of Skills Development, my understanding is that Ms. Carr is out of town and will be back here at about four o'clock. So our expectation is that this presentation, which is 20 minutes long or so, will then lead to a discussion perhaps with us. I believe the two presentations will mesh nicely in terms of the particular concerns about training programs that the Ministry of Skills Development has and the impact of free trade agreements on those.

This particular presentation focuses on two key concerns that the Ministry of Labour has, as you would expect, with its labour adjustment programs, but in particular we are concerned about the neglect of this issue in the agreement. As opposed to the presence of something in the agreement, we are concerned with the neglect of that particular major concern of the

Ministry of Labour and the adequacy of available programs presently in Canada, particularly in Ontario.

In addition to that, we are worried about the pressure that may arise under the free trade environment for an easing off of labour market policies that offer basic protection to workers. As you know, the Ministry of Labour is very actively involved in trying to assure those sorts of protections through the various pieces of legislation that we have presently, whether they be in health and safety or employment standards or the Labour Relations Act and so on, many pieces of legislation related to various sectors of the labour market. We would be and we are very concerned about the impact of this particular free trade agreement on those aspects, and the potential that we may have a very rapidly growing pressure for an easing off of those various protections.

As I said earlier to you, it is important to note that the labour adjustment issue is a joint concern of the Ministry of Labour and the Ministry of Skills Development. The deputy of that ministry and perhaps staff from it will be along at four o'clock and will pick up on some of the things that we may touch on very briefly that relate to training programs, just to suggest where they fit into the constellation of concerns that we have. They will be dealt with, I am sure, in careful detail with you.

If I can ask Mr. Saunders to take you through our presentation, I think it will perhaps lead you to a variety of questions that you may have in this area. We are very concerned with this agreement, particularly with those two areas of concern that I mentioned.

Mr. Saunders: First let me give you an outline of what it is that we propose to discuss in the presentation. As the deputy has just indicated, there are two major concerns that we have, one relating to labour adjustment and one relating to policy flexibility, if you like.

In the labour adjustment area, there are in a sense two distinct sorts of concerns. One is about the countervail issue, that is, the permissibility of labour adjustment programs under the agreement or rather the lack of explicit attention to that in the agreement. Then a second set of concerns relate to the adequacy of labour adjustment programs. And as I mentioned, then we will talk a bit about the policy flexibility issue, which is certainly an important concern of ours.

The countervail issue--what we are talking about here is securing the permissibility of labour adjustment programs. Our concern is that bona fide labour adjustment programs should not be in any way threatened or countervailable, if you like. They should not be liable to duties being imposed because they are seen as subsidies to industry.

We should say that currently labour adjustment programs are not countervailed against by the United States, nor do we see currently labour adjustment programs as subject to current US countervail law, but there is a risk that we are concerned about that in the future programs that we may wish to introduce or the federal government may wish to introduce could be subject to countervail. Indeed, there is a risk that the US could strengthen its countervail laws as well. That is really not safeguarded against under the agreement.

So it is an area where we felt a need for the removal of uncertainty. There is no attention to that at all in the legal text of the agreement. There

is in fact no mention of labour adjustment programs in the legal text whatsoever. There is certainly no exemption of labour adjustment programs from countervail.

This lack of attention to the permissibility of this sort of program can be seen as part of a more fundamental flaw in the deal, and that is the fact that there is no subsidies code in the deal as it stands. There is to be discussed a development of a subsidies code over the first seven years of the agreement, but at the time the agreement would commence, there would be no agreed upon subsidies code. That is a general problem with the deal, and our particular concern is with the lack of attention to the permissibility of labour adjustment programs.

If I can turn then to looking at the issue of the adequacy of labour adjustment programs themselves, what we first wanted to do is set out some general principles that we think ought to be kept in mind in the design of labour adjustment programs.

First of all, there must be an appropriate federal-provincial division of responsibilities. There are certain areas that the province is active in. There are areas that the federal government has clearly had a historical responsibility for, and appropriately so, such as mobility assistance, relocation assistance, income support, training for the unemployed. These are areas that the federal government has traditionally had the responsibility for. There needs to be then recognition of an appropriate division of responsibility.

There also is the issue of having programs that are only available to workers hit by free trade versus generally available programs. Our view is that adjustment programs need to be generally available, because in practice it may be difficult to identify a given displaced worker as displaced by the trade agreement as opposed to being displaced by something else like technology change for example. So we think there is a need for a broad array of generally available programs.

We do think that there needs to be the flexibility, however, for governments to offer enhanced assistance such as enhanced relocation grants or enhanced training incentives in hard-hit communities or in hard-hit industries. But with that proviso, we think the programs will need to be generally available.

We think that there needs to be a flexible array of readily accessible programs. What we mean there is that the needs of workers are going to vary from case to case depending upon, among other things, the demographics of the work force affected by an given displacement. The needs are going to vary and what is important is to have available a broad array of programs that can deal with whatever needs arise and can deal with that in a flexible way.

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Obviously we have to have skill training programs available and readily accessible and I emphasize that. That is something that will come up later on in the Ministry of Skills Development discussion.

We need to have academic upgrading available. We need to have income support, both for the unemployed as well as for those in training programs. We must have readily accessible relocation assistance for those who wish to avail themselves of that sort of adjustment measure. We need to have counselling

information, placement services. We need to have standards as we do in Ontario for the conduct of mass layoffs.

We need to have at least the opportunity to provide special measures for the revitalization of hard-hit communities.

All of these things must be part of the package and must be readily accessible. We will be talking in just a minute about what sort of things in fact Ontario is doing in this general area and where the federal government is at.

A fourth principle is that positive adjustment should be emphasized. By that we mean that it will be appropriate to facilitate adjustment rather than prevent it. That where the adjustment pressures are there, what is necessary is to allow that adjustment to take place in such a way that there is not a heavy burden felt by those doing the adjusting, rather than to try and stop adjustment from happening. We have to recognize that some adjustment is going to have to happen.

There is a principle that the education system should promote adaptability. That is simply a recognition of the importance of transferable skills given technology change and other structural pressures on the labour market that emphasize the need to be flexible in sorts of occupations that one can undertake.

The last principle we have put down here is a supportive macroeconomic policy. It is really a fundamental point I suppose and that is that all of these other things depend in part for their success on a supportive macroeconomic environment. Obviously structural adjustment programs such as retraining are going to be more effective if there are jobs for the people retrained and a macroeconomic policy that is designed to reduce unemployment is going to facilitate adjustment in general.

Mr. Thompson: Mr. Chairman, just as we are going on, I see some of the members making notes from these points and if they would prefer to have a copy of the slides as we go to note some questions they may want to ask at the end we would be happy to circulate them.

Mr. Mackenzie: The notes would be helpful.

Mr. Saunders: If we can continue then. What I wanted to do next is talk about the sorts of programs, labour adjustment programs that are available. First are those that the Ontario government is active in, and I will talk first about the ones that the Ministry of Labour is involved in.

The employee counselling program that is provided in mass layoff cases provides counselling that is tailored to the needs of the particular workforce affected by the mass layoff. We also participate in joint labour-management committees under the auspices of the industrial adjustment service of the federal government. Of course, we administer the termination-of-employment provisions of the Employment Standards Act, the requirements for mandatory severance pay, advance notice and so on.

1520

The Ministry of Skills Development is active in the area of training. We will just mention briefly that the primary component of that is the Ontario skills program, which is geared mainly to retraining of employed workers.

Recently, there was the introduction of the Transitions program dealing with displaced workers 45 years and older.

If I can move on to outline the federal programs that are available, the federal government has major responsibility for assisting unemployed Canadians, displaced workers and individuals faced with employment loss. It has major responsibility, for example, for retraining such workers; it has major responsibility for ensuring an adequate supply of skilled workers; again, it has the primary responsibility for relocation assistance or mobility assistance and, of course, it has the responsibility for income support, unemployment insurance being the primary means by which that is provided.

The other principal instrument of the federal government is the Canadian Jobs Strategy. As I understand it, that is something that is going to be addressed in some detail when the Ministry of Skills Development gives its presentation.

We do want to outline briefly some of the concerns that we have about the federal program. Again, this is an area I understand the Ministry of Skills Development will be talking about in more detail, in particular with regard to training, but we want to outline some of the general concerns that we have.

First of all, on the phenomenon of declining spending under the Canadian Jobs Strategy, one may understand that this declining spending may reflect the federal government's view that with unemployment declining there is less of a need for labour market programs and that with the pressures for deficit reductions this is one area that gets trimmed.

We also wanted to emphasize that we think that is a mistaken notion, that the need is there and that, in fact, even though unemployment rates have been coming down there is evidence that for so-called structural unemployment, unemployment experienced by those who have to make major changes in the kinds of jobs they do or changes in their industry of employment, there are indicators that that sort of employment is not going down.

If you look, for example, at cases of major layoffs or plant closures, that sort of activity has been fairly flat over the last few years, at the same time as unemployment rates have been coming down. We think that the need is there, even though the spending on the federal side is being cut back.

We are concerned about restrictive eligibility rules. It is difficult for displaced workers to get access to training and it is difficult for them to get access to relocation assistance. Again, these are things that the Ministry of Skills Development will be elaborating on.

We are very concerned about unemployment insurance regulations, in particular the regulations relating to the treatment of separation payments. As you may know, UI regulations are such that a worker in receipt of severance pay or termination pay will have a delay in his UI benefits and, in most cases, an effective reduction of those UI benefits because, for purposes of unemployment insurance, those separation payments are spread out as if they were earnings and the UI benefits cannot begin until the end of that period over which those separation payments have been spread out.

This is an area that we have been repeatedly protesting to the federal government about. Our view is that severance pay is not a substitute for unemployment insurance. It is not designed as bridging income between jobs,

but rather it is designed as compensation for the capital loss that a worker experiences upon the loss of a job that he or she has held for some time. There are capital losses such as lost seniority benefits, in many cases a reduced value of pension entitlements, loss in the value of skills that are specific to the firm, learning and training which has occurred and generated a skill useful in a particular firm, the loss in value of that when employment is terminated.

1530

All these things constitute a capital loss for the displaced worker of long service and, again, we see severance pay not as bridging income but as compensation for that capital loss. This is a debate we have been having with the federal government. Unfortunately, as it stands right now, UI regulations continue to treat separation payments as if they were earnings for the purposes of unemployment insurance.

There are a couple of other concerns we do have regarding federal programs. There are concerns about the availability of income support for long-term trainees. Again, this will be elaborated on by the Ministry of Skills Development. We have concerns about gaps in availability of assistance for displaced older workers; that the labour adjustment benefits program which has provided last-resort income support for workers over age 55 who lose their jobs has been terminated, so no one can now enter that stream of benefits.

There is a proposal on the table to replace that program with another, but that proposal involves having the provinces pay half of the new program, whereas the predecessor had been entirely federally funded. So there is a concern on the part of the province about apparent attempts by the federal government to off-load responsibility for income support.

Those are some of the concerns we have about federal programs. A related concern is about the uncertainty regarding federal plans; that the statements in this area that seem to be coming out of Ottawa suggest there is no commitment to improving labour adjustment programs; that in spite of the concerns we have raised, which the Ministry of Skills Development will elaborate on, there does not seem to be recognition, or at least a public commitment, of the need to improve these programs.

Another area related to this that we thought important to discuss is the size of the adjustment problem, because it seems that the lack of federal commitment is related to a belief that we do not have a big adjustment problem and that free trade is not going to create any significant adjustment problem. This is an area where, as you probably know, there has been a lot of numbers bandied about. There have been many studies, many different numbers about jobs to be gained or jobs to be lost.

Our view here is that in a sense it does not matter whether you believe there will be net job creation or net job loss as a result of a free trade deal. It does not matter what particular numbers you attach to job creation or job dislocation. One must recognize that even if you believe free trade would lead in the long run to more jobs, there is going to be a lot of adjustment, at least a major risk of a sizeable adjustment, in the course of getting there; that a lot of people would be required to shift occupations, to shift industries; that there is, at the very least, a major risk of a sizeable adjustment problem, whatever the numbers are that are being bandied around.

It is also important to recognize that although there are no doubt

existing pressures for adjustment, from technology change, for example, free trade would undoubtedly significantly accelerate those existing pressures for adjustment. Essentially, we think the important conclusion that has to be drawn is that one must be ready with a wide range of adjustment measures to meet whatever needs do arise; that it is not useful to be looking at various numbers and saying, "We're not going to do anything because of the numbers." It is important to be ready to meet whatever adjustment needs do arise.

Our last slide here--there is only one slide on this subject, but I should not minimize the importance of it, that is, our concern with labour policy flexibility. In the event that the tentative deal goes through, no doubt there would be heightened concern with competitiveness relative to the US. There would no doubt be closer scrutiny of differences between Canadian and American social policies, economic policies and labour market policies.

One could anticipate that there would inevitably be pressure from the employer community to ease off on labour market policies that help protect workers, policies like workers' compensation, health and safety and hours-of-work restrictions. One can anticipate there will be this sort of pressure, and it is a concern of ours that under a free trade environment there would be this growing pressure against labour market programs, if you like.

We also want to state emphatically, however, our view that that sort of pressure would be misguided, in the sense that the framework of protective labour policies contributes to long-run economic performance by improving productivity and by reducing resistance to change. For workers to know that health and safety is going to be looked after and that they have appropriate protections in the workplace is going to improve economic performance in the long run.

Mr. Thompson: That is the end of the formal overhead presentation. I might remind you that, as Mr. Saunders has indicated, there has been very serious disagreement around issues such as separation payments and unemployment insurance with the federal government, really a great unevenness in the comments that have been made about labour adjustment need and the type of program that would be anticipated in the free trade environment.

We have many concerns, and particularly a concern, I guess, with the need for an enhanced spectrum of labour adjustment programs. In the environment that has just been described, I think one sees the opposite potentially happening.

Mr. Chairman: I have some questions from members, if you wish to take them. Perhaps someone could turn the lights back on.

Mr. Mackenzie: I have two or three questions. First, let me try to soften what may be a little bit of anger with this presentation with the comment that some of us, whether we have the right ideas or not, have long argued that we need to do a lot more advanced planning and work and have had a number of criticisms over the adjustment programs that are in place--more accurately, probably, that are not yet in place. As I see it, it is really just in the last couple of years that we have started discussing some of these.

I can give you examples of almost tragedies. I think the industrial machine training program that local 1005 is involved in in Hamilton is a good example, one that places 93 or 94 per cent of the workers. In the last two years we have seen cutbacks that cut the bloody program by two thirds. I know

from the plant closures in our town there just have not been in place--and we are still, to this day, it was almost ad hockery in getting some of the Firestone stuff started. There are a number of plants there where the workers have suffered to this day.

My concern is that, until we got to the last page of your presentation, it was almost as though you have accepted the finality of the free trade deal. The entire Ministry of Labour pitch is on what we can do in terms of adjustments or retraining. I think, with the dangers to workers generally, that should be ongoing at all times. It is something we should have in place now and something we should always be working on, whether we have a free trade agreement or not.

I am a little disconcerted that that is the emphasis of the presentation we are getting here today. I want to make it clear that I am concerned and I do think it matters whether we lose jobs or gain jobs in this particular deal. I am not concerned only with the adjustments. I cannot state that too strongly.

1540

Having done that, I want to use two particular pieces, if I can, that you may be aware of. One is a release from Dick Martin, one of the executive vice-presidents of the Canadian Labour Congress, which you may have seen. It is dated January 11. This deals with hazardous materials and pesticides. I think the operative paragraphs are as follows:

"Canadians can expect slacker regulations on the use of pesticides and fewer warnings about the use of hazardous materials, if the free trade deal is implemented.

"We have just concluded five years of highly successful negotiations to achieve a national standard for labelling dangerous materials used at work," says Mr. Martin. Canada's workplace hazardous materials information system (WHMIS) is one of the most comprehensive systems in the world for labelling dangerous products. Now article 2004 of the Canada-US free trade agreement puts all that at risk through its commitment to international rules over intellectual property and trade secrets.

"This could undo all of WHMIS at a stroke because the US federal hazard communication rule, which has the same function as Canada's WHMIS, is weaker on chemical identity and on disclosure of trade secret information. For example, in Canada chemical names of ingredients of products will be disclosed on data sheets more often than they are in the US. Labour will also play a prominent role in the handling of trade secrets. These are the sorts of things we may see dropped as a result of the free trade deal.

"When they say level playing field, they mean sea level," Martin explains. "Harmonization means equalization...to the lowest common standards."

He goes on with a few additional comments: "Canadian rules on pesticides could also be threatened by free trade. Schedule 7 (Pesticides) of the agriculture section of the deal implies that there will be a common regulatory policy on pesticides. Again, US rules on their use are weaker than they are in Canada."

The point I guess I am making in that, and which I think he is making very effectively, is that it points out, whether he is totally accurate or not, a very serious and a very dangerous concern that the implementation of

this free trade agreement could bring about in terms of workers, their protection and the knowledge of what they are handling.

It seems to me that we are missing the boat if we have accepted that we have a free trade deal here and are not highlighting what will be, I think, of tremendous interest. I know the extent to which the Canadian Labour Congress and its executive felt about that particular point.

The other one is some of the points that are made. I will use this only because it is done a little better than I probably could do it myself in terms of outlining some of my concerns. That is the piece by Michael Lynk in the January 15 edition of the Toronto Star, his concerns about what is likely to happen.

He says, "Canadian labour laws are not mentioned anywhere in the United States free trade agreement signed this month," as you have referred to yourself. "Indeed, they probably were not even discussed in any detail during the negotiations. Nevertheless, should the free trade pact be implemented, our relatively advanced body of labour and employment legislation--certainly superior to most American labour laws--will be directly threatened." The threat comes, as he says, from the competition problems that arise as a result of it.

He makes a very strong case, and I will not read it all into the record, of the fact that there are some 20 states with no minimum wages in the US. In one of those that have it, Texas, it is \$1.40 an hour, as against one province that is four bucks or under--I think it is Alberta--and what we are dealing with when it comes to the kinds of pressures that are already there in terms of minimum wage.

He goes on to say: "More disturbing is the much weaker body of American labour laws to protect the right of workers to organize unions and to bargain with employers on a relatively equal footing. Two differences in particular stand out.

"First, American labour law reform has suffered from an extended period of atrophy, caused by a powerful employer lobby and indifferent federal governments. As a result, coercive and illegal employer tactics to keep unions out of their workplaces, such as dismissals and interference with organizing campaigns, have become much more widespread"--in the United States--"and much more successful than in Canada." And he talks about Weiler's study.

He goes on to talk about union growth and the right-to-work laws in existence in so many of the states in the US and totally not in existence in Canada today: "While right to work is nonexistent in Canadian labour law, there are 20 American right-to-work states, almost all in the south and midwest. These states share exceedingly low unionization rates," running from five per cent to 20 per cent, and the workforce is invariably poor, nine of the 15 lowest wage states in the entire United States of America.

He goes on to raise a number of other items that I will not raise. I think you could add to it, and I do not think he dealt with it, the pay equity situation.

The point I am trying to make is that we are facing a free trade agreement with the United States where we have not even discussed labour legislation but where, in terms of whether or not there are unfair advantages, we are going to see tremendous influence in terms of maintaining jobs,

particularly jobs in the value-added manufacturing sector, as well as, probably, the resource sector in this province, from the US.

Here we have a presentation from our Ministry of Labour which, I have always contended, has a job to see that workers get a fair shake in this province, that is talking about an established fact, in effect: "Let us see what we can do about adjustment and retraining programs." It would seem to me that the first order of priority--and that is not taking away from the necessity of this--would be to outline your concerns in these particular areas, if you have them. I am presuming that the ministry legitimately does. What can we do about it or how do we tackle it? Make those kinds of concerns much more widely known among the public of this country.

The fight up until now has almost been entirely a trade union one in terms of outlining the threats to workers. I have got to tell you I was a little bit flabbergasted by the time the end of your presentation came because that is the total presentation you have made: What can we do in terms of meeting a deal that is there? I refuse to accept that the deal is there yet. There are steps still to be made, barring the signatures. I am not knocking plans for the future, but it seems to me you have missed the most essential boat of all, and that is: What are the dangers to the working people of Ontario.

Mr. Chairman: Mr. Mackenzie--

Mr. Mackenzie: I am sorry, but I am just wondering if you would respond to that specifically. Why is our presentation strictly one of what we can do after the fact?

Mr. Thompson: I guess we, in no way, intend to suggest the line of approach that Mr. Mackenzie has taken, but rather to say that we have great concerns with the deal. We are highlighting those in the gaps that are in it, or in the omissions in it, in terms of the absence of attention--at all--to labour adjustment matters and to those other significant concerns that we have that he has alluded to--in the health and safety area, for example--where there may be potential, without explicit protection of those in the agreement, of backing off from the kinds of employee protection programs that we have in Ontario. So we are in no way sanguine about the agreement at all. Certainly the Minister of Labour (Mr. Sorbara) has been frequently speaking out on the subject and making his views known on that.

Mr. Mackenzie: I am not going to go into any more detail, but I have one final comment. In terms of energy and natural resources, we have had at least two presentations today, that very clearly outlined the effects and the concerns. It would seem to me that, of all of the ministries that should have done this as well, it is the Ministry of Labour.

As I say, I am not taking away from plans in terms of adjustment. But I am saying that it clearly indicates--whether it was intended or not--an acceptance that we have got a free trade deal. I think it would have been helpful to have very effectively outlined some of the things that I have touched on here--and there are many others--as to the threat the workers in this province are under. If we are going to do anything about not finalizing a deal or making changes--if, indeed, that is possible--and I do not think it is--then those are the kinds of questions that have to be out there in people's minds.

Mr. Chairman: Mr. Mackenzie, maybe I should, in fairness, deflect

some of your criticism to the chair, because the chair was presuming that this ministry would have serious concerns. Our request was that the emphasis be on possible adjustment programs. It may be that, had we made the request somewhat differently, it would have--

Mr. Mackenzie: If that is the situation, then I may owe an apology to the ministry. But if that is the case then I think you may also have missed the boat in what we are trying to do in this committee on the deal. To me, it is essential that we know what the effects can be. Working people are going to be affected probably as much or more than anybody else in this province.

Mr. Chairman: Surely there are other ministries that are more able to provide us with the effects. For instance, the Ministry of Industry, Trade and Technology might well be better able to tell us the number of jobs lost and where they are going to be lost.

Mr. Mackenzie: I think the Ministry of Labour also, though, is in a position to ask, "Hey, if you are up against 20 states and some of the most productive of them, in terms of the way industry has moved to them, have got no minimum wages at all and do not have these other benefits of worker protection, what are we going to be up against in terms of the economic competition for jobs and for plants?" It is a very major problem.

Mr. Ferraro: Can I have a supplementary to that?

Mr. Chairman: Briefly only.

Mr. Ferraro: Without getting off the topic here, I think Mr. Mackenzie has got a very good point. But in fairness, my understanding to date is that we have scores and scores of opinions, guesstimates and approximations, totally confusing for me, as a member, never mind the average Canadian citizen out there. I am not sure, outside of being somewhat generic--I think one of the inherent characteristics planned in the free trade agreement was the fact that, "We're going to discuss this over the next five or seven years." It is cloudy enough to presume there will not be that much criticism, because of course you cannot be too specific. We have seen that, whether it is the financial institutions, the energy sector, wherever.

In defence perhaps of the ministries, I am not sure how a ministry can be that specific. I agree they have to do something based on their guesstimate, if you will, but I think the free trade deal in itself is ambiguous enough and lengthy and confusing enough that it really defies anyone to derive specifics from it. I think that is intentional, an inherent problem. How the hell we deal with it as a committee is further compounded by the fact that I think each individual ministry has that problem. I do not know if anybody else agrees with that.

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Mr. Chairman: It certainly made sense to the chairman.

Mr. Mackenzie: To put one additional little remark: I missed a piece I think is important, because I have already felt this, for example, in some of the talks we have had in Hamilton with the Firestone situation. A point is made in this newspaper article that:

"Besides labour relations legislation, the level playing field that free trade is designed to create will also erode our other employment-related laws.

Our workers' compensation, unemployment insurance and pay equity programs, which are more comprehensive and compassionate than our American counterparts', have been cited by the Canadian business lobby for free trade as unacceptable, expensive employment costs."

We are not only likely to see the pressure from the US as to whether these things are, in effect, subsidies, and certainly they have a direct effect on tens of thousands of workers, but we are likely to see our own business people lobbying for removing, lowering or weakening some of the protections and benefits workers have won. We are going to get it both ways and I think this kind of threat should have been very clearly laid out in this presentation.

Mr. Chairman: That is a good point. I think it is a fair point to make.

Mr. McCague: I think it was the Canadian Jobs Strategy--was that the one your ministry or your government refused to participate in?

Mr. Thompson: The Canadian Jobs Strategy is a federal program. We can describe it to you in terms of the reductions in it, if you like.

Mr. McCague: No. I want to know which program you refused to go along with federally and then introduced Transitions?

Mr. Thompson: Let me let Mr. Sadlier-Brown speak to both of those questions, if I may, in relation to the Transitions program but also perhaps in relation to the program for older worker adjustment you have heard about from the federal government.

Mr. Sadlier-Brown: I will not speak to the Transitions program because that is a responsibility of the Ministry of Skills Development; they will be here this afternoon and I am sure they would be happy to answer any questions you have about that. I will speak to the POWA program, which Mr. Saunders referred to in his presentation.

The government of Ontario has not refused to participate in the program for older workers. The government has raised some concerns about the terms the federal government has proposed for our participation in it. As Mr. Saunders noted in his presentation, the LAB program, that is, the labour adjustment benefits program, provided assistance to particular employees in particular sectors who had lost their jobs, who were older workers and who had little hope of finding alternate employment and were given income support. The federal government has cancelled that program; no new entrants may go into that program. They have proposed the establishment of a replacement.

One of the important differences between the LAB program and the replacement is that they are proposing the province pay half the cost of the income adjustment, which is essentially what the program is about. Basically, it would provide income support to workers over 55 years of age whose unemployment insurance entitlement ran out and who were in communities designated under a set of circumstances.

Mr. McCague: OK, I think that is enough on that. The point I want to get around to is that really, when you size up your presentation, let me guess that nine tenths of it is a litany of what is the matter with the federal programs or the lack of them or whatever.

I agree with the point that this matter should be addressed in the free trade agreement, but in a smaller way than the member for Hamilton East I have had some problems with labour adjustment, readjustment or whatever you want to call it. Really, those people who are trying to help them--and I am not talking about government people, either government; I am talking about community people--the biggest trouble they have is that most of their time is spent in trying to figure out what it is you fellows in Toronto have to offer, what it is the fellows in Ottawa have to offer and listening to the arguments that you put against Ottawa and Ottawa puts against you.

Why do you not make what I think would be a sensible decision to at least participate with the federal government in these programs, and it with you? It is a two-way street. I think that if the federal government and the provincial government were sharing in the individual programs instead of fighting each other, the workers would be a lot better off.

The reason I raise this issue is that the workers in Collingwood shipyards are down from 1,000 to about 30 problems now but it is exactly the same thing as Mr. Mackenzie has been raising about Firestone and others for quite a few years. Do you not think it would be a good idea if you got together in the same bed instead of different rooms across the hall?

Mr. Thompson: If I can take you back to, I think it is page 3 of the overheads, that set of principles and the need for that flexible array that is spoken about in item 3 speaks very much to Mr. McCague's question or concern, I think.

There is no doubt that there needs to be a kind of meshing of the program planning between the federal and the provincial governments to deal with labour adjustment. However, what we are seeing is a reduction of federal contributions into these areas. At a time when we want to see those going in the other direction, there is much concern that there just seems to be an attempt to move the responsibilities that are properly federal responsibilities for programs over to the province.

Mr. Sadlier-Brown: Can I add something? This is all the more so in an environment where the federal government has added to the magnitude or proposes to add to the magnitude of the adjustment problem with the free trade arrangement. It cannot be retreating from participating in adjustment programs and adding to the adjustment program at the same time. That is the real difficulty that we have.

Mr. Haggerty: I want to follow on the same point as my two colleagues have made. I really share some of Mr. Mackenzie's concern. In my area we have had plant shutdowns and we have had massive layoffs. At the International Nickel Company some 1,800 persons lost their jobs back in 1977 and many of them have never been retrained, and some may have been but still have not found employment.

The Prime Minister of Canada can come back out and say that with free trade there are going to be winners and losers. At one stage of the game he said that over 500,000 people would be displaced in employment--lose their jobs. Another comment that has come out of the latest signing of the agreement between the United States and Canada is that there will be 124,000 new jobs created out of the deal. Now that leaves quite a shortfall if you are using those two numbers. If you take about 50 per cent of the population, it may be well above that. Of those jobs, 50 per cent will probably be lost in Ontario.

I attended a meeting with the directors and the president of Niagara College of Applied Arts and Technology with all the provincially elected people in the Niagara region. One of the issues that was raised there was the shortfall in federal funding that had been cut back over the last couple of years for retraining of the unemployed. The Prime Minister says, "Yes, we will have compensation out there." He does not say what type of compensation. He does not say we are going to get into a training program.

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If they are cutting back now and if free trade comes about and we are going to see this number of jobs lost, then I tell you, he is not going to meet his commitment on compensation and retraining, if he is not moving now to maintain what the government had put into training programs before.

This is one of the concerns of Niagara College. They are saying they cannot provide classes today because of the cutback in federal funding in job retraining. I think you mentioned that in your report.

The question is, in any of your discussions with any other government agency or ministry with the federal people who are responsible for this area, have they made a commitment that funding is coming now in the case of the shortfalls on this free trade? Have they suggested they are going to ante their assistance in this particular area? Are they going to be putting money forward now to start the programs? It is not going to happen overnight. It is going to take a couple of years even to get this going through the educational system.

Mr. Thompson: We have heard a succession of conflicting statements from the federal government on that very matter, some suggesting--perhaps it was the Minister of Finance--there were going to be major needs for financing of such programs. Then I think the Prime Minister said the opposite to that in later times, that there may not be a need for major labour adjustment and financial assistance. We see that kind of unevenness of response there, and certainly we do not see any additional actual programs being offered at this time.

Mr. Haggerty: On the other area I want to deal with, I have just a short question. It does not give the page number, but it says: "Other key concern: labour policy flexibility." Apparently from your assessment you can anticipate pressure from the employer community to ease off on labour market policies that protect workers; for example, workers' compensation. Can you add additional comments or expound on this area that you are concerned about? Why do you flag that now?

Mr. Thompson: We are justifiably proud of where we have got to in the province in many of these programs, and there is a great deal of distance to go. It will be very unfortunate if the lack of any kind of protection in this agreement causes people now to want to back off on the kinds of social support programs that exist in the province. As we indicated in our remarks, there is a high level of probability that will happen if this agreement is to go ahead. Therefore, contrary to Mr. Mackenzie's comment earlier, we certainly hope it will not.

Mr. Haggerty: I have not seen the latest mandate, what their next question is, in their papers. I do not know whether it is there or not. Bob, is it? Have you seen it?

Mr. Thompson: I am sorry, the which?

Mr. Haggerty: Mandate. That is the Canadian Federation of Independent Business, I guess, John Bulloch. There is a question about workers' compensation that I know he has had.

Mr. Mackenzie: You can write his brief as well as I can. You do not even need to hear him. You know exactly what he is going to say.

Mr. Haggerty: But I do not know what he is sending out to the small businessmen across Canada. Has anybody flagged that from the federal government to you, any agency at all, on this particular area, that these may be some of the issues? Have you had any dialogue?

Mr. Thompson: If you mean have they flagged the concern about the potential for backing off on support programs--

Mr. Haggerty: Yes.

Mr. Thompson: --no, I do not believe so. I guess we are expressing the concerns about that. The lack of any kind of protection of that leaves you very vulnerable.

Mr. Haggerty: Have you had any meetings with your federal counterparts and other provincial labour ministries, or are you contemplating meetings on it?

Mr. Thompson: There has been quite a succession of meetings throughout the process of the free trade negotiations. The province, in each of the areas, including the labour area, has been making its representations known on a pretty regular basis and expressing all kinds of concerns about the agreement as it seemed to be developing. So the answer to that is yes.

Particularly in the labour adjustment area, we have been talking to the federal government both in relation to and out of relation to the free trade agreement, because we are of the view that there is much that needs to be done in the area of development of labour adjustment programs even as we stand at the present time, let alone with the free trade agreement.

Mr. Haggerty: In other words, I can assume that your document or paper this afternoon, the issues and the concerns you have raised here, are actually from those meetings, rather than issues that have not been tackled or answers that have not been forthcoming.

Mr. Thompson: That is a fair comment, I think, particularly the concern we focused on at the beginning; that is, that we have persisted in saying to the federal government that labour adjustment needs to be addressed in the agreement. We thought that was happening, in fact, at one stage of the game, that if that process was going ahead, labour adjustment was going to be included and protected in some fashion, but it is not. It is not there.

Mr. Beer: I would like to follow up on similar points, in particular some of the specific programs we have. We have mentioned workers' compensation. A number of us were at the opening the other night of the Pay Equity Commission. In talking with people there who are starting that venture off, there is clearly a feeling that we are on new ground and doing some things that are innovative, and I think they are.

I believe Mr. Saunders was mentioning problems with the relationship between severance payments and unemployment insurance. I recall a few years ago, with the fisheries problem with the United States, in terms of whether unemployment insurance should be seen as what it was in terms of helping the fishermen.

Have you, as a ministry, looked at those programs in terms of what could happen under the agreement? I realize, given that there is no mention of them, it may just mean there is uncertainty. Is there a real concern about whether those programs would be affected by the agreement in some way? The Pay Equity Commission is in some respects one which could end up at that dispute resolution mechanism they talk about. Are there other programs of a similar nature where you have concerns? Perhaps you would comment on that.

Mr. Thompson: Let me comment on the area of severance and unemployment insurance particularly. That has been an ongoing issue, as we mentioned earlier, and we are very unhappy with the lack of any ability to influence the federal government to think of separation payments as distinct from the unemployment insurance mandate. The consequence, really, is that the Legislature's act governing that matter here is effectively thwarted by the federal government's actions under the unemployment insurance legislation.

Unquestionably, as and if a free trade agreement proceeds, there is certainly going to be much more activity in the separation business. As Mr. Shardlow can describe to you in graphic detail, if major closures, as we have witnessed in the last period of time, accelerate--and they are certain to in a free trade environment, in my opinion--the impact of a lack of resolution on that severance issue is going to be all the more in evidence. There are going to be many more workers affected by that lack of a satisfactory solution.

Mr. Beer: I suppose, too, the programs we now have in place might be viewed a certain way under the agreement. Clearly, the longer we leave the development of new programs or ironing out these difficulties, especially if they came after an agreement was in place, the greater the chance of losing that or having that appealed in some way.

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Mr. Thompson: Yes, I think both. We have the potential for easing off on programs that we have in place at the moment and we certainly have the potential for a contest over new programs that are going into place, unquestionably, I think. The word "uncertainty" has been said a number of times here today. I guess that is the most worrying part of all of the environment that we see before us: a lack of any kind of statement about these matters in the agreement. Therefore, it simply leaves it open to conjecture how it will be handled and dealt with.

Mr. Beer: Would it also be fair to say that, in the discussions you have had with the federal government, particularly the federal Department of Labour, I suppose there may have been some thinking, but clearly there are no programs which it was working on in sort of responding to a what-if scenario? If we go through with this, here is what will happen to the grape growers in Ontario; here is what will happen in certain of the industrial sectors. That kind of study and analysis is not there or was not there until very recently.

Mr. Thompson: I think it is fair to say it has not been there. If they have developed sectoral programs such as you describe, the statements that have been made there by different people in cabinet have certainly

differed in terms of their view about the need for any kind of general program or expansion of programs. That kind of uncertain blanket over the whole bed of concerns that we have and probably some of their ministries have, leaves one very worried.

Mr. Beer: On the third page, under "Principles for the Design of Labour Adjustment Programs," in point 3, where you have set out the kinds of programs that must be offered--and, I suppose, whether there is a free trade agreement or not, that is a pretty useful list of the kinds of things one would like to see--is it your sense that that list, in terms of what ought to be offered, would be shared by the federal government and, essentially, the conflict would be over who ought to be doing what? Or would their agenda in that area perhaps be markedly different from what you are suggesting?

Mr. Thompson: I think their responsibilities are pretty clear.

Mr. Beer: Yes.

Mr. Thompson: And they seem to be withdrawing from those at the moment, as opposed to going in the other direction, in an environment where the need is growing and the level of uncertainty is growing. I do not suppose most people who are actually on the line, as Mr. Shardlow is, working in the field with people who are experiencing closure situations, would differ much in their suggestion of what the cast of programs or the array of programs ought to be. But it does not appear that there is an intent to move in those directions.

Mr. Beer: And, clearly, just as a follow-up to that, in those areas where it would be your understanding that they have the responsibility, they are pulling back from those areas and saying "It is up to you" and just leaving it blank.

Mr. Thompson: There is less money being spent at the federal level, significantly less in some of these areas than there was a year or two ago. It is not just a statement, it is a fact.

Mr. Chairman: Both Mr. Morin-Strom and Mr. Neumann have indicated they wanted to ask questions, but I wonder if it would be appropriate now, in view of the fact that I know Ms. Carr has been sitting here for some time, for her to join Mr. Thompson. Is that the plan, to join you?

Mr. Thompson: I think the Skills Development ministry want to simply go ahead and I will have our staff remain available if I may, Mr. Chairman.

Mr. Chairman: Is that all right, Mr. Morin-Strom?

Mr. Morin-Strom: I would rather ask the questions first.

Mr. Chairman: All right. Carry on then, but bear in mind that the clock is moving ahead.

Mr. Morin-Strom: Mr. Thompson, would you agree that in terms of labour legislation and protection for workers, the long-run agenda in terms of the business community and employers in this province is that they would like to see a move towards one set of rules and that they would feel a lot better in terms of their competitive positions if this agreement led to our labour legislation being very similar to the American?

Mr. Thompson: I would not generalize about that. I suppose any employer has to try to be competitive out there in the marketplace. I would like to think that the most responsible and responsive employers are thinking about ways to ensure that we have protection for our workers in the province. They know, as well as anybody else does, that if you have a group of workers who are badly protected and feeling vulnerable, you are certainly not going to get the best job done.

I think that kind of concern about the work force is there in the best industries around the world and in the worst it is not there. I do not think Ontario management in the most responsible sectors would be just trying to whittle away in a way that does not see the longer-term impact of that.

Mr. Morin-Strom: How would you characterize the comparison between labour legislation in Ontario versus the United States, typically? Are we protecting workers better in this province?

Mr. Thompson: Yes, I would say so, generally. You might want to hear from Mr. Saunders on some of the differences. It is very varied across the US from state to state and from federal government to state. He might want to speak to that.

Mr. Saunders: The areas I am most familiar with are termination-of-employment policies, such as advanced notice and severance pay, and the hours-of-work area. I think it is safe to say that in those areas the protections that there are in Ontario are generally better than those in the United States, yes.

Mr. Morin-Strom: Rights to unionization?

Mr. Saunders: That is an area I would not want to comment on.

Mr. Thompson: Mr. Ignatieff could speak to us on that issue.

Mr. Morin-Strom: I believe we have a lot higher percentage of unionization here.

Mr. Chairman: Would you please introduce yourself?

Mr. Ignatieff: Yes, I am Nicholas Ignatieff, acting director of the policy branch.

I think Mr. Morin-Strom is correct, in general. The kinds of protection that we offer under the Ontario Labour Relations Act are generally equal to or better than most of the American legislation, and certainly the percentage of unionization is much higher in Ontario and in Canada generally.

Mr. Morin-Strom: In terms of the direction the Labour ministry has been going in this province, have we been moving towards even greater protection for workers generally in recent years or away from greater protection?

Mr. Ignatieff: We have certainly been increasing the scope of our protections in areas such as health and safety and workers' compensation; I think the record is fairly clear. We have been trying to make sure that our legislation remains relevant to the current situation, and I think Mr. Mackenzie perhaps accurately portrayed what has gone on recently in the US. There has not been forward movement in the current administration and there have been some rollbacks, I would say.

Mr. Morin-Strom: In this last statement, which is the only one that gets that labour policy flexibility, you do admit that there will be pressure from political groups to ease off on labour market policies and as well that there will be closer attention to differences between Canada and the United States in terms of economic and social policies.

Is not one of the major issues here, and the reason that social groups and labour organizations are so opposed to this, that we have a current situation facing us in terms of what kinds of protections are available in the whole social sphere and we have a potential of moving in one direction or another?

You admit that in recent years we have been moving, hopefully, to greater protections and assurances of a decent standard of living for working people in the province. But if the pressure is, from henceforth, because of the free trade agreement, moving in the direction of needing to have a smaller difference between the American situation and the Canadian situation, it could well mean a change in direction from where we are today. Is that not really a major concern?

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Mr. Thompson: Absolutely. I would say in addition that the lack of protection, not just for our workers but for workers on both sides of the border, leaves us very vulnerable to a kind of ratcheting down from wherever either of us is at the moment. We will compete on the backs of those workers in a way that would be very unfortunate if there is not some kind of protection.

Mr. Morin-Strom: So it is a move to the lowest common denominator.

Mr. Thompson: Or ratcheting backwards.

Mr. Morin-Strom: Second, in terms of the adjustment policy, I find it fascinating that you address adjustment policies, federal programs and provincial programs, but only criticize the federal ones. You have two pages talking about federal program concerns and uncertainty concerning federal plans.

Who is responsible for adjustment of the labour force, not only to potential problems from this free trade agreement but major plant closures which are happening on an ongoing basis? Is it a provincial responsibility, is it a federal one, and why are you critical of only the federal side of the equation and not yourselves? Are you jointly responsible or is it completely a federal responsibility?

Mr. Thompson: We have no doubt that our programs are improvable. I guess the point of our presentation and the reason we are so particularly critical here of the federal government is simply that it has a leadership responsibility in the labour adjustment field, and in this particular agreement it is not there. We are not in any way suggesting that we do not have lots of improving to do.

If you would like Mr. Shardlow to comment on the kind of program interventions made by us and with the federal government in major shutdowns that have occurred in the last while, that would give you some idea of what currently happens, if that would be useful to the committee.

Mr. Morin-Strom: Yes, please.

Mr. Chairman: Briefly.

Mr. Shardlow: I will try to be brief. It is my program and I would really like to take a lot of time.

There are two major programs we participate in. One is a federal program we assist in and one is our Ministry of Labour program. The federal one, which you are probably familiar with, is the joint labour-management adjustment committee program, federally funded with provincial financial support and funded by companies. It is basically a job search committee, set up with an independent chairperson, usually from the community at large, who is familiar with some of the community activities.

The major provincial program, which we developed six or seven years ago, is a counselling program put on primarily in large-scale situations. It provides counselling for workers, usually in job search techniques, skills assessment, preparation for retraining programs, financial accounting, pre-retirement counselling, anything of that nature that would give them an upper hand in seeking out employment or interest them in some of the training and retraining programs.

At Firestone, as an example, we started the counselling program and the adjustment mechanism several months before it was known the plant would indeed close; in fact, shortly after the announcement was made, we started with our federal counterparts, with the union and with the company to look at some adjustment mechanisms, and an adjustment committee was set up in September, I believe. The counselling program started soon after that. Of the 1,300 Firestone workers, we have had over 1,000 of them go through the counselling program prior to the actual termination date.

The types of things they would have been assisted with would be how to look for work, résumé preparation, skills assessment and a whole range of issues of that nature. In addition, about 200 or so of those workers identified an interest in entrepreneurial types of activities, and if it has not already happened, there will be a short program put on for them to show them the pros and cons of starting their own business. In addition, there will be some counselling on financial matters like pensions and things of that nature. That has been going on.

As part of the adjustment committee process as the counselling winds down, there will be a storefront operation, which is now in place. That committee will be manned at least until April 1988, and perhaps longer if possible, as a centre for people to drop in to get information, to provide additional support, counselling support, if necessary, and actually to help people to seek out jobs.

The Firestone one is perhaps one of our better examples, because it is one where we were able to get going fairly quickly along the line, but even that one was slightly hampered by the uncertainty as to the sale. I point that out because all the parties were able to put their differences aside as far as a sale or no sale and as far as the negotiations towards a benefit package and to assist their fellow workers were concerned in actually trying to do something in case there was a termination.

These are the types of programs that we try to put on in closure situations or mass terminations, permanent layoff situations, over the course of the year in the province.

Mr. Neumann: Being the representative from Brantford, I am certainly familiar with the need for labour adjustment programs. We could write quite a critique, I think, of both federal and provincial programs, based on our experience of plant shutdowns and major adjustments that have occurred in the farm equipment business. I want to commend you for your presentation. I think it has been most instructive in terms of understanding the free trade agreement and the impact.

As a follow-up to an issue that was raised earlier, I would like for the record to quote from a letter provided to us by the chairman of the committee. This letter is written to John H. Reimer, MP for Kitchener, from Bryan R. Dare, vice-president of marketing and corporate development, Dare Foods. Part of the letter reads: "This is in response to your letter to Mr. C. M. Dare, who has asked me to reply on his behalf. Your letter asked for a one-word answer to the question 'What overall result does the Canada-United States trade agreement have upon your business?' I regret to tell you that the overall effect of the agreement on Dare Foods is unfavourable."

Then it goes on for three pages. On the second and third pages it recommends seven areas in which government should respond. Two of those areas confirm fears that people have expressed. I will simply quote two of them.

Item 2 says, "Elimination of supply management systems which force Canadian manufacturers to pay higher input costs than their US competitors, especially with regard to dairy products." That raises the fear of the future of supply management.

The one that relates to what you have said is item 7, "Extreme caution in the introduction of legislation of any sort, e.g., labour laws, consumer laws, liability laws, social benefit programs, etc., which would have the effect of increasing the costs faced by Canadian companies compared with the cost structure in the US."

There we have it: the first that I know of confirmation that indeed the private sector will be lobbying for a slowdown, if not a cancellation, in progress in social programs.

The Acting Chairman (Mr. Pelissero): I will not take it as a question; I may take it as a comment.

We want to thank you gentlemen for taking your time. As I am sure the chairman has made the appeal to other departments of the government that if there is anything else, we can get back to you.

Mr. Thompson: Thanks very much.

The Acting Chairman: We have the Deputy Minister of Skills Development, Ms. Glenna Carr. Maybe you could just introduce the individuals we have with us and we will proceed from there.

Ms. Carr: Thank you, Mr. Chairman. Let me introduce, on my right, Les Horswill, assistant deputy minister of the policy and development division of the Ministry of Skills Development. On my immediate left is Helmut Zisser, also of the policy and development division. On his left is Daniel Cayen, of the policy and development division as well.

It is a pleasure to be here with you. Unfortunately, I was not able to hear all of the remarks of my colleague from the Ministry of Labour. I hope I

do not bore the committee by repeating some of the things he said, but I do have a few remarks and I would be delighted to answer any questions.

From the Ministry of Skills Development perspective, the speed of structural change has been increasing over the past decade because of a number of influences. The newly industrialized nations, with relatively low labour costs, are competing for markets of low- and medium-technology goods, and competing quite successfully.

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Technological change is causing shifts in the patterns of employment both within industries and across industries, and the fundamental shifts in demographic structure of the labour force are occurring with the ageing of the baby boom cohort. I am living testimony to that particular effect. Whereas the labour force grew by well over three per cent a decade ago, it now grows by less than two per cent a year.

The trade agreement would only accelerate these adjustment pressures, which are already severe. For example, it is estimated that the average worker will change employment at least five times during his or her working life.

Numerous studies have been undertaken in an attempt to evaluate the magnitude of the adjustment problem brought about by free trade. Some have predicted massive job losses; others, varying degrees of growth in employment. What all of these studies point out and have in common is that the adjustment impacts of the agreement will be massive, for adjustment, in addition to being an issue of jobs lost and jobs gained, inescapably is an issue of extensive change in both sectoral employment patterns and skill requirements, and therefore impacts on people and their opportunities to participate in the workforce.

It is generally recognized that free trade will negatively affect certain sectors of our economy. The movement of labour from those declining sectors is a structural question that needs to be addressed through structural policies. The Ministry of Skills Development and the Ministry of Industry, Trade and Technology are going to be holding consultations with firms of sectors to assess the impact of the agreement specifically on skills and the human resource side of the question.

Those sectors of the economy which are generally recognized as being more vulnerable to free trade generally employ workers whose level of skills is relatively low. In addition, those groups that are already employment disadvantaged, including women and older workers, will be disproportionately affected by the proposed agreement.

The following are among the most vulnerable sectors, and I think these coincide with those enumerated by my colleague Mr. Lavelle in his remarks to the committee earlier: fruit and vegetable processing; plastics fabrication; fibre, yarn and cloth industries; knitting mills; pulp and paper mills; metal stamping, pressing and coating; miscellaneous metal fabricating; miscellaneous machinery and equipment; railroad rolling stock; major appliances; electrical industrial equipment; glass and glass products; plastics and synthetic resins.

Studies indicate that women form the majority of the workforce in many of these vulnerable sectors. For example, in clothing they constitute 77 per cent of the labour force; in leather and footwear they represent 62 per cent; in textile products, 52 per cent. It is further estimated that 44 per cent of the female manufacturing workforce is in these highly vulnerable areas.

Free trade will also have serious implications for the workforce employed in small businesses with 50 or fewer employees. These businesses represent 90 per cent of all establishments in this province. Even in the construction and trade sectors these businesses represent over 90 per cent of establishments, and 80 per cent in the manufacturing sector.

With regard to the role of training in particular, which relates to the mandate of the Ministry of Skills Development, training, retraining and employment policies, such as counselling, mobility assistance and unemployment insurance, along with job creation schemes, can, at least in part, address problems ensuing from structural changes in the economy and altered patterns of employment.

With regard to federal and provincial roles, in general terms the historical or traditional division of responsibility between the federal government and the province has been that Ontario funds short-term workplace training programs while the federal government has been responsible for long-term vocational training, income support through unemployment insurance, counselling and mobility assistance for the unemployed.

Although the federal government is pursuing policies designed to accelerate market-driven economic change, it is not providing the additional support for labour adjustment assistance. If economic growth is to be shared equitably by people in this country and is not to lead to greater extremes in our society, adjustment assistance programs must keep up with the rising pace of change in the country.

It is unfortunate in our view that the federal government has chosen to reduce its involvement in this area since 1985. I would like to describe to you the federal expenditures under the Canadian Jobs Strategy introduced in 1985.

On the national picture, prior to the introduction of the Canadian Jobs Strategy, \$2.2 billion was being expended by the federal government in the area of training. That dropped to \$2.1 billion in 1985-86 and in 1987-88 it has been reduced to \$1.5 billion. In Ontario, those effects are as follows: Prior to the Canadian Jobs Strategy, it was \$552 million and this year, 1987-88, it has been reduced to \$388 million. In contrast, during the same period Ontario has more than doubled its expenditures to training.

Moreover, Ottawa's decision to reduce the direct purchases of training seats by 40 per cent since the 1985-86 level in favour of an indirect mechanism has created a climate of uncertainty and instability in our colleges of applied arts and technology across the province and indeed for employers as well.

Recently, the federal government has proposed to integrate its funding of the apprenticeship program, long-term training, into the skilled shortages component of the Canadian Jobs Strategy. This would have several negative effects on Ontario's ability to meet the adjustment challenge and achieve higher incomes through greater productivity. Their proposal would impede efforts to expand the apprenticeship system also into new trades in the new and emerging occupations, which we view as a key objective.

The Minister of Skills Development (Mr. Curling), along with employers and unions in Ontario, has registered his concerns about this federal proposal. They are looking to the Minister of Employment and Immigration to come forward, we hope, with a fresh approach and a renewed commitment to partnership in building the apprenticeship system across the country.

Since the trade negotiations began two years ago, Skills Development in its discussions with its federal counterpart, the Canada Employment and Immigration Commission, has taken the position that it is inconsistent for Ottawa to simultaneously introduce policies that accelerate the adjustment process while at the same time cutting back programs and funding intended to ease such adjustment.

In particular, we have requested that the federal government:

1. Restore the level of funding for adjustment programs to the 1984-85 level, taking inflation into account.

2. Relax the eligibility criteria of the Canadian Jobs Strategy to allow more workers to qualify. Just to give you an example, right now under the job development component of the Canadian Jobs Strategy workers have to be out of work for six months before they can qualify to be trained under that particular component. They have to go through the trauma, the dislocation and so on for six months before they can qualify for training funding.

3. To support recent provincial initiatives such as the proposed expansion of the apprenticeship system from 40,000 to 60,000 apprentices annually.

4. To introduce a Canada training allowance which would provide income support to workers who have to be away from their jobs to undertake training or retraining in an institutional setting. We feel this proposal would provide substantial incentive to workers to undertake the retraining needed by extending the present income support provisions to cover institutional training periods in all bona fide federal or provincial training programs.

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We have two papers which can be tabled with the committee. One is a paper that was presented to the federal government on the Canadian Jobs Strategy, with recommendations about how it could be improved and how it could be made more flexible and appropriate for the internationally competitive situation the country finds itself in. This was presented by the then Minister of Skills Development to his federal counterpart in January 1987.

Second, we have a proposal for the Canada training allowance which was tabled by Premier Peterson at the most recent first ministers' conference.

For its part, the province has recognized the significant and increasing importance of training. The recent introduction of new provincial programs and fundings attest to that. I would just mention a few examples that I think are particularly relevant to the consideration of this committee.

They include measures to strengthen apprenticeship, including initiatives to increase the number of apprentices, the participation of women, the addition of new employers in this form of training and new trades.

Transitions is the older-worker program which we introduced last year, which provides a \$5,000-per-person training voucher to older workers aged 45 and over. This is an ideal area for co-operation between the federal and provincial governments, with Ontario paying for the training costs and the federal government hopefully paying for its traditional role of income support for the trainee.

There is also the technicians and technologists upgrading program to maintain the competitive edge of our more sophisticated industrial skills and the ones which will be in great demand in the future.

These three initiatives complement Ontario's Training Strategy, introduced in 1986, which provides broad-based training assistance to at least 10,000 firms annually. Its incentive fund, Ontario Skills, and its training consulting service are aimed primarily at small and medium-sized firms so that they can help adapt their employees to new market opportunities and to technological change.

I would like to make a few comments on the proposed trade agreement and on adjustment assistance in general, if I may. In terms of the actual trade agreement, there are no clauses which immediately address the issue of labour adjustment assistance, as this committee has discussed. In our view, this is a potential problem. The lack of a subsidies code, coupled with protectionist legislation being contemplated in Washington, could result in countervail actions being filed against Canadian products under the pretext that certain companies are receiving unfair assistance from governments through training programs and subsidies.

Ontario's position, as expressed to the federal government during the negotiations of the agreement, was that specific provisions should indeed be included to permit governments to maintain broadly available adjustment assistance programs, such as the Ontario Skills incentive funding. This has not been done and it verifies there is some potential for countervail action against programs which are deemed acceptable in other free trading zones, such as the European Community and under the General Agreement on Trades and Tariffs.

In conclusion, the federal government's decision to appoint an advisory council on adjustment, headed by Jean de Grandpré, does not, in our view, deal with some of the very substantive issues that are before us with regard to labour adjustment and will not address the need for a broadly based approach nor solve the funding deficiencies over the past two years. The council will advise on discretionary spending and ad hoc assistance at a time when a broad-based approach is what is required.

It is proposed that it be disbanded in June 1989, only six months after the proposed agreement would come into force. This time period does not seem to allow sufficient time for the impact of the agreement to manifest itself. The tariffs are to be removed over a 10-year period.

As my colleague from the Ministry of Labour has mentioned, and I would echo it, what is needed is a comprehensive national program of adjustment assistance, which will flow from the following principles:

Programs should be broadly available and not narrowly cast. They should be flexible. It does not make economic or social sense to make the unemployed wait six months to be eligible for training or retraining programs. Positive adjustment measures are needed to enhance international competitiveness, and should be emphasized: for example, retraining for a variety of skills instead of sectoral or ad hoc assistance. Standards for the conduct of mass terminations should be permitted, and community-based measures for the hardest-hit towns of this country should be permissible, particularly in single-industry towns.

In the immediate future, we are looking to our federal counterparts to

support the modernization and the expansion of the long-term form of training through apprenticeship, to introduce a training allowance that would be complementary to provincial expenditures on training costs and to institute an up-to-date mobility grant system.

The Acting Chairman: Could you provide us with copies of your remarks that we can photocopy?

Ms. Carr: I have some handwritten notes here, but I would be glad to provide them in the future.

The Acting Chairman: That is fine. If you would provide it to the clerk afterward, it would be great.

Mr. Haggerty: In your document here, the proposal to create a Canada training allowance, on page 2, I guess it would be, the long-term training, I am looking at the second paragraph on that page. It says, "Long-term training can also be undertaken by workers recently unemployed and learning new skills. Ontario's new Transitions program, which provides a \$5,000 training voucher for laid-off workers over 45..." Is that the province's share or is that a combination of the two, federal and provincial?

Ms. Carr: The province is paying \$5,000 for the training costs. What we hope the federal government will do is provide income support to those workers so that they can take the training, if it is institutionally based training.

Mr. Haggerty: The income support would be to look after the family too, then?

Ms. Carr: It would be the traditional form of income support.

Mr. Haggerty: That is like room and board if they have to travel from one college to another?

Ms. Carr: Yes. Perhaps I can ask my colleague Mr. Horswill just to elaborate on that so it is clear to you.

Mr. Horswill: To many fortunate workers and apprentices, it is now provided through section 39 of the Unemployment Insurance Act. The philosophy is that the individual must be able to maintain a reasonable level of his present income if he is going to have any reasonable degree of freedom to participate in long-term training. What is the case now is approximately two thirds of income support, as is the case for the unemployed.

Mr. Haggerty: You said long term, though. Is the \$5,000 for one year's or two years' training, for 8,000 hours or whatever it may be?

Mr. Horswill: It can be spent by the individual for up to two years.

Mr. Haggerty: That is like buying a seat in the colleges, then, is it? That is what we are talking about in the retraining program, or maybe an apprenticeship program plus the training in the colleges.

Ms. Carr: It is really up to the unemployed person to pick the form of the training. He can buy a seat in a college course. He can use the \$5,000 with an employer, in which case the employer might provide training on the job and the \$5,000 would cover the instructional costs. If he was with an

employer, he would be getting some wages from a new employer. If he is taking the course in a college, a university or another institution, there would be no employer, so he needs some form of income support.

Mr. Haggerty: In other words--if I can interpret what you said, then--we are subsidizing the industry in the sense that we will pay part of the wages--is that what you are saying?--and that \$5,000 plus the education---

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Ms. Carr: No; the \$5,000 is to pay the cost of the tuition, if you like.

Mr. Haggerty: That is just for the tuition, then, and there is another program where somebody is saying that apprenticeship programs are under the Futures program, that we will subsidize the industry half of the wages, whatever it may be; I do not know what the numbers would be in that area.

Ms. Carr: In apprenticeship, the wages are paid by the employer, and the in-school costs, the costs of the in-school portion of the training, are paid by the government.

Mr. Haggerty: So there is nothing here that would apply to subsidizing the industry in a co-op program?

Ms. Carr: Yes, the \$5,000 can be used by the worker to go to a new employer and say, "If you hire me, the government will pay you \$5,000 for my training costs, not for my wages." It is an incentive, if you like, to the employer to pay the wages of that employee. Or the individual can go to a college and say, "I really want to become a whatever and I have \$5,000 to pay the tuition fee for that particular program."

Mr. Haggerty: But you have to go to a college. I mean, some of these programs are now available in a secondary school system.

Ms. Carr: It is not restricted to a college. I was just using that as an example.

Mr. Haggerty: It can apply in the secondary school system?

Ms. Carr: It could be in the school system.

Mr. Haggerty: If somebody wanted to, say, work six hours a day in a low-paying job, he could be subsidized to go to night school or something like that and upgrade their skills that way, or what? I am thinking of a single parent who has some difficulties in this area geared to obtaining a retraining program without being jeopardized on his social income.

Mr. Horswill: There is a need there for the kind of Canada training allowance we have discussed, whereby when an individual leaves the place of employment to do the extensive training, there is a program in place to supplement his income. That is the case now for apprentices. When an apprentice goes to the six or eight weeks of in-school training, through a difficult but meaningful mechanism of the Unemployment Insurance Act the government of Canada moves in and assists that person to maintain the majority of his income.

Unfortunately, the guidelines under the Unemployment Insurance Act at present will make it difficult for many potential participants in Transitions to participate in that, and we are looking for a commonsense discussion, which will cost money, with the federal government to make it easier for those individuals to leave the workplace to enhance those skills with the \$5,000 training voucher.

Mr. Haggerty: You see, that is the problem with the whole matter of retraining: They are half-measure programs. It sounds good when a person reads it and says, "Boy, I have got an opportunity to get a job, to be retrained, and I can find employment." But the question is, with all the qualifying terms of reference that are needed, many of them are still left out there on the streets. I see Mr. Mackenzie smiling over there. I imagine he is going to get into this here, too. No, he is not. He has probably given up hope on it.

Mr. Mackenzie: I am leaving it all to you.

Mr. Haggerty: I was just going to say, Bob, you have given up hope on it, and many of the young people out there feel that way. This Futures program--the intentions are good, but many times an employer will say, "Now, here is a person who can fit into our program," but he is only there for three months and then he has to move on to something else. That person gets rather discouraged and says, "Gee, here is something where I could have fit into a program, I could have got into an apprenticeship program, but it stopped there."

When we get into this matter of compensation and the retraining program, we are going to have to bring in tougher measures than this. If we are looking at the numbers who need it, I hope it does not hit the province of Ontario, but I suggested before that there could be a quarter of a million people unemployed. Your funds will not be sufficient there, really, to put a retraining program out there. Then the question comes next: When they get into this retraining program, are the jobs going to be down the road in the free trade?

Mr. Horswill: I can only add that our philosophy regarding the Transitions program, as the deputy indicated, is that individuals over 45--

Mr. Haggerty: It is make-believe for those fellows over 45.

Mr. Horswill: --should exercise their common sense and judgement on where they see the best opportunities for their native talents in the marketplace, and we hope that kind of common sense will operate between our two governments. It is a federal system and there is logical complementarity.

The Acting Chairman: I have got 4:50 p.m. I am going to put a suggestion that we go until five o'clock or whatever.

Mr. Beer: I will be very brief.

It seems to me--and it is probably a good thing--that what you have said supports what we heard earlier in the afternoon from the officials from the Ministry of Labour. To a certain extent we could start getting off talking about specific programs, and you may feel as though you are back in estimates again, which may or may not be a joy. But in looking at this specifically in terms of the free trade agreement, it would seem to me that, both in terms of what your ministry has identified and what the Ministry of Labour has identified, even if we were not talking about the free trade agreement, there are some substantial problems in the whole area of adjustment and training.

We are now being told that in addition to those problems, if this agreement goes through, no matter what estimate one might want to give about new jobs created, there would inevitably be a great number of jobs that would be lost and, in this whole area, great demand. What I then pick up from the combined testimony today is a very clear indictment of the problems that free trade agreement is going to cause us, and clearly there is no response that has come from Ottawa in terms of helping to deal with what would be an incredibly more difficult problem.

Then that just gets back to what Mr. Mackenzie was talking about much earlier, that concerning the opposition we have to express to this agreement in terms of the different problems that arise, your lives, certainly as a ministry trying to find funds for these different programs, are going to be made much worse, much more difficult.

In beginning to look at the impact, do you have some sense of what you would anticipate, were this agreement to go through, would be the kind of increased funds you would need, how quickly you would have to expand a variety of training programs in the different sectors? Perhaps this is more appropriately done in the Ministry of Industry, Trade and Technology and so on.

It just seems that as I listen to what has been said this afternoon, I get a sense that if this were to go through, it just gets worse and worse all the time. I have a real concern as you talked about the amount of money that has been cut federally. While it is great that our money goes up compared to that federal cut, it nowhere reaches it.

Ms. Carr: It is very difficult for us to quantify how many more millions or billions of dollars would be needed. As I mentioned, we will be talking, together with our colleagues from the Ministry of Industry, Trade and Technology, to various industries that have done some of that in the past. Until we had the actual trade agreement and until we see the impacts of some of the tariff changes, it will be difficult because these things often boil down to almost firm-specific, not even sectorally specific, analysis.

It is of great concern to us that there has been this federal reduction in training over the past two years because, as I think Mr. Haggerty pointed out, training is a long-term investment. You do not just turn it on one year and turn it off the next. You have to have employers willing to train, you have to have employees who have a sense that there will be a job there and something to invest their time and effort in, and you need to provide a stable and even an encouraging climate for training institutions so that there is some sense of an ability to plan, predict and know what will be happening.

It is our view that the climate over the past two years since the introduction of the Canadian Jobs Strategy has gone the other way. It has been destabilizing as opposed to providing an environment where planning and long-range participation, worked out in a mutually beneficial way, can go on.

I would say simply in the area of apprenticeship training, in the Ontario situation we have indicated that several million dollars would be needed over the next five years to match the increased investment that the province is going to put in for its part in expanding the apprenticeship system.

Mr. Beer: That is not made with reference to the free trade deal.

Ms. Carr: That is regardless of the trade agreement.

The Acting Chairman: OK? Thank you very much, and if you would forward copies of your remarks to us, we would appreciate it.

Ms. Carr: I will be glad to do so.

The Acting Chairman: Thank you. I remind the committee that we are meeting again next Monday afternoon at 2 p.m. in room 151.

Interjection: Are we meeting Friday?

The Acting Chairman: We are not, not this Friday. Next Friday, as in the 29th.

Clerk of the Committee: Next Friday.

Interjection.

Acting Chairman: As it still stands, but there are three little words at the bottom that say, "Subject to change," so stay tuned.

The committee adjourned at 5:02 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

MONDAY, JANUARY 25, 1988

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitution:

Beer, Charles (York North L) for Mr. J. B. Nixon

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Canadian Alliance for Trade and Job Opportunities:

Macdonald, Hon. Donald S., Co-Chairman

From the Trust Companies Association of Canada Inc.:

Evans, John, President

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Monday, January 25, 1988

The committee met at 2:02 p.m. in room 151.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: Perhaps we can get started. (inaudible) say otherwise that everyone who is here with that group is in favour of this agreement and is here to so indicate. As their spokesperson, we have the Honourable Donald Macdonald who, I am sure, anybody who has been involved in Canadian politics over the last 25 years is quite familiar with.

Mr. Macdonald in many ways brought the whole issue of trade with the United States to our attention in late 1984, if I recall correctly. It would be prior to the release of his Royal Commission on Economic Union and Development Prospects for Canada, reported in August-September 1985. I have a copy of the report here if anyone wishes to make reference to it.

I had the distinct pleasure of hearing Mr. Macdonald at the Brookings Institution in Washington about 11 months ago. He gave a very eloquent defence of the historic aspects of the negotiations and particularly the concerns this country had for its cultural institutions. It was perhaps the best explanation of that to Americans I have ever heard. He is an eloquent spokesperson for us in these negotiations and he is also, of course, eloquently defending the final result.

We will have some questions for you, sir. Perhaps you would like to get started. Members of the committee have in front of them a packet which includes Mr. Macdonald's address.

CANADIAN ALLIANCE FOR TRADE AND JOB OPPORTUNITIES

Hon. Mr. Macdonald: Thank you very much. As you have said, I am here on behalf of the Canadian Alliance, so the views I am expressing are ones that I express on behalf of the Alliance generally. Others I may have expressed in the past you can cross-examine me on, but this is a collective statement.

We are appreciative of the opportunity of coming up here. Of course I had the opportunity of meeting with you within the last 18 months, so this will be a continuation of that. I have handed out my remarks and will abridge this a little in the interest of time.

The motivation for appearing today is that we feel the issue is too important and too far-reaching to be considered just within the confines of narrow partisanship and political rhetoric. In the months since the signing of the agreement in principle with the United States, we have witnessed a polarization, one might say an intransigence, on the part of many who claim this deal will not serve the interests of Canadians. We have seen that polarization take place along political lines. We have heard the nay-sayers admit that free trade with our largest trading partner is integral to our continued economic growth, but that the agreement that has been reached is not the right agreement.

We feel it is time that we turn our discussions away from those sorts of pronouncements, which we would characterize as unhelpful, and which we believe have failed to further Ontarians' understanding of the impact and of the opportunities inherent in expanded trading opportunities with the US and, indeed, with the marketplace internationally in general. It is time to examine how the agreement will affect Ontario's industries, businesses and service sectors. It is time to make an effort to ensure that the overall effect of free trade will benefit Ontarians and that our energies are directed towards a smooth implementation and the necessary adjustments in some areas.

We cannot lose sight of the increasing competitiveness of world markets and of the protectionist mentality in the United States. We must consider how this agreement will better enable Canada to advance its interests and whether the results will be of assistance to Canada and to Ontario in the situation we face now and in the future.

That is why I am here today with my colleagues from the Canadian Alliance for Trade and Job Opportunities. This group represents a broad cross-section of industries, of businesses and of individuals from across Ontario. They have examined the impact of free trade on their businesses, and they strongly believe they will benefit, their employees will benefit and the Ontario economy will benefit as a result of the free trade initiative. They are here to demonstrate their commitment to respond to a changing economy with foresight and dedication. They are here to dispel the view of some that Ontario cannot compete.

Many in our province, particularly among those who have invested their careers and their capital in the success of this province, believe that free trade will enhance opportunities, that it will strengthen our economic base and result in a more predictable and stable trading environment. I will not tell you that the agreement that has been reached is a perfect agreement. There are additional provisions I would have hoped for which were not obtained. But I recognize that the agreement that has been signed does respond to changing economic realities, and will go a long way to securing real economic growth and new job opportunities in Ontario and all across Canada. We must devote our efforts to capturing these opportunities, rather than trying to thwart the agreement or impede its implementation.

I know there is a long process ahead of us. Both countries face the challenge of developing implementing legislation that will allow the terms of the agreement to proceed. The Canada-US free trade agreement will help to create a climate conducive to investment and job creation in Canada. Historical evidence demonstrates without question that a reduction in tariffs is always accompanied by an increase in general standards of living and employment. Moreover, specific undertakings in this agreement relating to government procurement, investment, the movement of business personnel and services, will broaden opportunities for Canadian firms and for Canadian workers.

The nation as a whole will benefit substantially from the free trade deal, but no region stands to gain as much as the province of Ontario, as more than 90 per cent of Ontario's exports are destined for US markets. The impact of the agreement on Ontario's manufacturing sector will be extremely positive.

Let me say a word about the automotive industry. In recent years, the auto pact has come under attack by a coalition of American interest groups. The free trade agreement has served to enshrine the original terms of the pact that provide for Canadian safeguards in the form of production to sales ratios

and Canadian value-added requirements.

In the absence of such an agreement, it is fair to conclude that the Americans would have abrogated the auto pact and insisted on an automotive agreement much more in their favour.

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In addition, the rules of origin for nonmembers of the auto pact ensure that an even greater percentage of North American parts will be purchased by the offshore auto makers and the economic advantages of producing in Ontario will ensure that a proportion of this new business comes to the province. The Motor Vehicle Manufacturers' Association and the Automobile Importers of Canada--that is to say, including the non-North American companies--both strongly support the free trade agreement for these reasons.

Manufacturers all across the province have been supportive of the agreement. The core element of access for this manufacturing community is the removal of tariffs. This allows many firms to rationalize fully their operations and substantially improve productivity during the 10-year phase-in period. Being able to profit from economies of scale will make Ontario goods more competitive, not only in the United States market but in other international markets as well.

While the manufacturing sector will be the most obvious beneficiary of elimination of tariff barriers, Ontario's financial and investment communities and the retail sector, to name a few, will also experience growth as a result.

As I mentioned earlier, representatives of some of the more than 30 associations which participate in the alliance are here with me today. They are here to ask you, as I have said, to set aside partisan political feelings and to support the free trade agreement and the opportunities it will provide for the people of Ontario.

What I would like to do now is to introduce these people and then, on their behalf, to read into the record a brief excerpt from the statements they have made regarding the free trade agreement. In the documents that you have before you, you will have an even more extended description from each of the participants setting out his or her association's viewpoint. A full text of that is therefore available.

First, could I introduce John MacKay from the Aerospace Industries Association of Canada? He represents 200 member companies employing 58,000 Canadians, 30,000 of them in Ontario.

The association states as follows: "We support the federal government's free trade initiative with the United States. In the seven years since tariffs were removed on civil aviation products, our member companies have increased exports 125 per cent and increased employment by 40 per cent, this despite the continuance of significant nontariff barriers."

I would like to introduce next Robert MacIntosh from the Canadian Bankers' Association, representing all 68 banks in Canada employing many thousands of Ontarians.

The bankers' association states as follows: "The free trade agreement is a good agreement for Canada. The banks support it, even though it confers greater benefits in the short run on US financial institutions. Overall, the

agreement will be good for the Canadian economy and therefore will be good for the Canadian banks."

Representing Roger Hamel and the 50,000 Ontario members of the Canadian Chamber of Commerce is Raymond DeOre.

The chamber says, "The Canadian Chamber of Commerce believes that the Canada-US free trade agreement will preserve and create jobs and offer tangible long-term benefits for Canadian consumers, investors and businesses in all regions of our country."

Jim Lambie is here on behalf of the Canadian Chemical Producers' Association, representing 70 member companies employing over 17,000 Ontarians.

The association states that, "The CCPA supports the initiative of the government of Canada to secure more liberal multilateral trade."

On behalf of the Canadian Exporters' Association is Mme. Vanessa Tourangeau, representing 1,000 member companies employing many thousands of Ontarians.

The association states: "Surveys confirm that more than 90 per cent of the membership of the CEA welcomes the Canada-US trade agreement."

"Most members expect increased exports and employment or more secured access to the US market."

Catherine Swift is here on behalf of the Canadian Federation of Independent Business, representing 38,000 Ontario firms employing approximately 450,000 Ontarians.

The federation states that, "The new bilateral trading arrangements set out in the free trade agreement will enable Canadian businesses to cope with changing technology and increased competition from a position of strength."

Peter Dawes of the Canadian Importers' Association, representing over 750 member companies employing over 100,000 Ontarians, and the association states: "We support the Canada-US free trade agreement. The potential of greater multilateral trade liberalization now begun by the two nations of the world with the greatest bilateral trade is incalculable."

Ron Daniel is present on behalf of the Canadian Institute of Public Real Estate Companies, representing the 40 member companies in Ontario. The institute states: "The members of CIPREC welcome the free trade agreement since it will reinforce and facilitate their real estate development in the United States. CIPREC members have approximately one half of their \$50 billion real estate assets in the United States."

Dave Adams is here on behalf of the Canadian Meat Council which represents 17 member companies in Ontario and employs over 7,000 Ontarians. The council states: "Ontario members of the Canadian Meat Council are enthusiastic about the agreement." It will result in "expanded opportunities for Ontario's seventh largest manufacturing industry."

Geoffrey Hale of the Canadian Organization of Small Business Inc., representing more than 300,000 members in Ontario, is present. The organization states: "Ontario's small business community will benefit more from the free trade agreement than any other part of Canada. More than 85 per

cent of our members support free trade."

Unfortunately, Sally Hall of the Consumers' Association of Canada, a resident of Saskatoon, was not able to join us this afternoon. She asked, however, that I pass along the following comment on behalf of the 50,000 members of the Consumers' Association from Ontario: "Barriers to trade are always paid for by consumers ... Free trade produces choice and competition and gives consumers real power in the marketplace. Signing the deal will provide positive economic gains for Canada. The deal deserves support from consumers."

Bill Hewitt is here representing the 1,200 members of the Financial Executives Institute of Canada. The institute states: "Our members are constructively in favour of the agreement. Generally, the agreement is felt to be one of the most important commercial events of our time."

Graeme Hughes is present on behalf of the Information Technology Association of Canada, representing 51 member companies employing more than 70,000 Ontarians. The association states: "The information technology industry in Canada heavily relies on its ability to import and export." The free trade agreement "will considerably enhance this trade."

Brian Lechem is here on behalf of the Institute of Corporate Directors in Canada, representing almost 400 members. "The Institute of Corporate Directors in Canada supports whole-heartedly the free trade initiative. It aligns closely with the institute's ideals."

Harold Corrigan of the International Business Council of Canada is here, representing over 100 member companies, employing thousands of Ontarians. The council states: "The International Business Council of Canada believes that the Canada-US trade agreement is a positive step toward Canada's international competitiveness." It is a "positive reinforcement of the efforts being made at the multilateral level to liberalize trade."

George Miller is present on behalf of the Mining Association of Canada, representing 30 member companies employing over 20,000 Ontarians. He states: "The mining industry welcomes the free trade agreement, particularly the dispute settlement mechanism, because it will restore real discipline to the administration of trade remedy law in the United States."

Norman Clark of the Motor Vehicle Manufacturers' Association, representing eight member companies employing 75,000 Ontarians, says: "Under the 1965 Canada-US Automotive Products Trade Agreement the Canadian automotive industry developed into a modern, efficient industry ... employing a productive workforce. None of this guarantees the future. It only means that Canada must be world-competitive and that the auto industry exemplifies what can be achieved in a free trade environment."

Graeme Hedley is present, representing the 5,000 members of the Ontario Cattlemen's Association. The association states: "The Ontario Cattlemen's Association... strongly endorses the free trade agreement as it applies to our industry... Beef cattle production is the second largest farm commodity in Ontario... We need assured access to the US market for our superior Canadian beef."

Malcolm Seath is present on behalf of the Pharmaceutical Manufacturers' Association of Canada, representing 41 Ontario member companies employing several thousand Ontarians. The association states: "The free trade agreement

will have a moderate, gradual and positive impact on the 41 members of the association in Ontario."

These people and the many other alliance members and supporters from Ontario have one thing in common. Some represent business and some represent consumers, some are urban and some are rural, some are men and some are women, some are Conservative, some are Liberal and some are New Democrats, but we all firmly believe that the free trade agreement is good for Canada and Ontario. That is why we support it, and we urge you to do the same.

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Mr. Chairman: Thank you very much. It was a very impressive presentation. I was wondering whether you had representatives here representing so many people that it may well come close to or exceed the population of the province. Some of the people will be making presentations to the committee a little later.

I have a question for you from Mr. Ferraro to start off with.

Mr. Ferraro: Mr. Macdonald, I thank you and your association for presenting an impressive brief, to say the least. I have two questions.

On page 2, the first paragraph, you indicated, "We have watched the government of Ontario pass a resolution opposing the free trade initiative before full discussions and consultations had been undertaken." Would you elaborate a little bit on that?

Hon. Mr. Macdonald: We felt that judgement probably should have been reserved until the full impact of the agreement was known. As you know, I appeared before this committee before and detected then--and from statements emanating from this building subsequently, and long before the full details were known--that there was a negative opinion of the agreement on these premises. I felt then, and I feel now, that was premature and it is not in the interest of Ontario.

Mr. Ferraro: If I can just carry on a bit, when do you feel we will know the full impact of this trade agreement? You said we should reserve judgement until we know the full impact. What time would that be?

Hon. Mr. Macdonald: I do not think we will ever be quite certain of the full impact, because economic events change and the legal document has to relate to the facts at the time, but I think a judgement can certainly be made now with regard to this. In general terms, the universal experience--and I talked about the European free trade area or economic community--and indeed the experience of Canada over the last 40 years with the General Agreement on Tariffs and Trade negotiations and reduction of tariffs has been that to liberalize the market is to provide generally better standards of living and job opportunities.

Mr. Ferraro: I do not mean to be argumentative, but if you are saying--and I think I heard you correctly--that we will never know the full impact of this agreement, and I agree with you, and we should make an opinion on it now, the only thing I can say, whether it is liked or not, is that the Ontario government did make a decision subsequent to the January 2 signing. Albeit we intended to do it beforehand, it was subsequent. So what did we do wrong?

Hon. Mr. Macdonald: I think it was appropriate to know fully what the terms are.

Mr. Ferraro: Even if we will not know the impact.

Hon. Mr. Macdonald: You do know the terms. I do not expect you to make a judgement on subsequent economic events. But let us put it in the context of domestic legislation. For the members of the Legislature to say, "Of course, we cannot be sure what the full impact of this is going to be in subsequent years; therefore, we are not going to pass anything this year," I do not think you would follow that with regard to domestic legislation. I think at a certain point in time you have it here and you have to make a judgement on it.

Mr. Ferraro: OK. I do not want to carry on with that, but I thought that is exactly what we did. Having said that, I will just conclude with one question. I agree with what you said: we should not be partisan on this issue. For this brief moment in time, I am Rick Ferraro and not a Liberal.

I would agree with 95 per cent of what you have said, and I agree with probably 99 per cent of the people who are represented here and the people who indeed are part of the associations. I think it is safe to say that David Peterson agrees with the idea of free trade, because basically that is what we are talking about. What we are in disagreement with is this deal. We think it is a bad deal--not that we are against free trade--for all the reasons that you and, I am sure, most of the people here know about.

If we do not know the full impact and will not, I do not know. It is our opinion, as Canadians, that it was a rotten deal. So what are you saying: this is the only deal we could have got?

Hon. Mr. Macdonald: I must say I have difficulty. In the first place, I have never been able to understand the position of the Premier (Mr. Peterson) either with regard to having negotiations in the first place with the United States or, indeed, with regard to the deal that has ultimately come out.

I would have to say that if you are in favour of free trade and a deal that totally eliminates tariffs in industrial and agricultural products between the two countries, one that provides a substantial reduction, though not as total as I would have liked, in many of the nontariff barriers that Canadians have been facing, one that is going to establish a removal, for example, in the energy sector of the kind of problems I had to deal with over the years with regard to the embargo against Canadian oil or the embargo against Canadian uranium going into the US market, the opening up for the first time in a substantial range of service industries of the application of general trade rules to the service industries, which has not been there before, if none of those are in the addition of free trade, then I would like to hear the gainsayers' definition of free trade, because the total disappearance of tariffs is surely the classical demonstration of it, and we go beyond the classical definition.

Mr. Ferraro: Personally, I do not ever recall David Peterson saying he was against the negotiations; he has expressed some concerns. But I am not going to defend the Premier at this point in time.

If the heart and soul of the negotiations in the first place was to gain secure access to the United States, then you obviously believe that mandate

has been achieved. We do not. We think the dispute settlement mechanism is far inferior, and so do the legal experts that we employ and the people in all our government ministries, by and large. We think the concessions on energy are far too much, and I could go on and on. I guess there is just a difference of opinion. Perhaps it would be a hell of a lot easier to say, "Yes, it is a good deal," but we do not.

Hon. Mr. Macdonald: I do not think one can ever be assured of secure access, but one can reduce the extent to which existing tariff barriers will be an obstacle to further trade, and indeed, restraints will be put upon the application of further ones. As I say, the existing tariff barriers in the way of tariffs will totally disappear over a period of 10 years.

Now, with regard to the dispute settlement mechanism, I have talked to the ministerial commission. I think you were badly served in the opinions you got with regard to the dispute settlement mechanism. I speak, if I may say so, from the experience of having to deal with the United States on a range of economic issues. I think that is going to very much, in the interests of Canada, put those kinds of dispute problems in a much more regulated environment that is in our favour.

As I say, when you start opening up trade and services, and indeed assuring Canadian access to the US market for energy products, then I think we have got a very considerable advantage for Canadians in terms of better access to the US market.

Mr. Chairman: I have questions from Mr. Beer, Mr. Neumann, Mr. Kozyra, Mr. Pelissero and Mr. Haggerty. Obviously, I will entertain one from an opposition member first. I just saw Mr. Mackenzie and then Mr. Morin-Strom. I will put Mr. Mackenzie in now and then Mr. Beer.

Mr. Mackenzie: Mr. Macdonald, I heard the president or one of the chief officers, I think Mr. Phoenix, of the steel producers in Hamilton, admit categorically--and he was arguing in favour of the agreement--that we were not protected against US countervail, as of course we know; they can still institute an action. Neither did they have any guarantees with this arrangement that we would have any protection from the current protectionist bills that are before the US Congress. I would like to know what your response to that is.

Mr. Macdonald: I said I was disappointed that all was not achieved with regard to what the royal commission set out as goals in dealing with antidumping and countervailing duties. Indeed, as I think I may have said to the committee the last time I appeared, I would have preferred a code of economic conduct that would have defined what subsidies would be permissible and what would not so we would not be submitted to that uncertainty.

That is right. The negotiators were not able to come to an agreement on antidumping and countervailing duties. They are going to go back to the negotiating table and they have a period of time to do that. I can say, on the other hand, that I will probably see Mr. Phoenix tomorrow; I have seen him several times in the past. In general terms, he does endorse this as being a good arrangement.

Mr. Mackenzie: In terms of what are subsidies--and the argument is not really the removal of the tariffs, although there are circumstances where that will cause us difficulties--we have a five- to seven-year period where we do not know what are going to be considered subsidies. I would like to know

your response to that. It seems to me there is some danger in entering into an agreement where we do not know what we are putting up.

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Hon. Mr. Macdonald: I think we do know in general terms what we have to be concerned about in this regard, from the existing treatment of this issue primarily within domestic courts both in Canada and the United States but also under the General Agreement on Tariffs and Trade and the GATT codes. We do know that the kind of general programs that I as a federal minister was associated with, for example, of equalization and infrastructure support to various parts of Canada, will not be subject to countervail.

We do have to be concerned and we have to continue to be concerned with the fact that industry-specific subsidies, as in the Michelin case, could continue to be applied. I just say that is a problem we have right now, and it is a problem that will continue to remain with us if we take the advice of some people and tear up this agreement.

By tearing up the agreement, you do not get away from the problem that there are some Canadian public programs which could be countervailed. It seems to me the argument one could make is yes, it is not satisfactory, but at least it will be better to try to negotiate the code of economic conduct I talked about than to do nothing about it by not having a trade agreement.

Mr. Mackenzie: I am not a trade negotiator, but I certainly know that in the hearings we had and in the meetings I had as a member of this committee with some of the US congressmen and senators, I got the clear message, and very forcefully, that what was not up for agreement was US countervail. I simply submit to you that if we do not have protection against US countervail, we really have almost nothing in this agreement.

Hon. Mr. Macdonald: Come on, now, that is not true. The countervail deals only with regard to those particular policies where the government sets out to subsidize industry.

Mr. Mackenzie: It is where we have had the problems.

Hon. Mr. Macdonald: We have had a lot of problems with regard to tariffs, too. Sure, there will be difficulties on the Canadian side, but the Canadian chemical producers who are here will have very full access to the American market and will have an enormous advantage from dealing there. You can go industry by industry which has been running across tariffs.

For example, in most of the resource sectors the structure of the US tariff has been to give free entry to the basic resource itself, but when they have been manufactured and have higher value added to them, they run into a tariff. Get those barriers down and we have enormous opportunities. We have had problems in a number of pathological cases with regard to subsidies and countervailing duties. You can name five or six of them, but those five or six do not exhaust, indeed, are only a corner of the total trade that goes on between Canada and the United States.

Mr. Mackenzie: When we had some of the representatives of the petrochemical industry before this committee in the Sarnia area, in our earlier incarnation a year or so ago, one of the things we tried to get out of them, because they were cited as one of the positive sectors in the economy, was this old game of who are the winners, given that we have some idea of the

losers. When it came down to the testimony, I think if you go back to that committee we finally were given a figure of maybe 100 new jobs and investment that could be as high as \$60 million for those 100 new jobs. Is that the kind of access we are talking about, that the industry in Sarnia was talking about, or are we talking about much more from the petrochemical industry?

Hon. Mr. Macdonald: I remind you that we are talking a national deal. You may say, "We're going to measure this deal only in the number of jobs in Ontario and not for Canadians."

Mr. Mackenzie: I did not say that. I said that was one of the arguments.

Hon. Mr. Macdonald: OK. Let us understand that we are doing it on a national basis. I think it is as much in the interests of Ontario to have the expansion of that very considerable portion of the industry in western Canada and Alberta in particular, as it is in Ontario. Ontarians have traditionally been the manufacturers of everything from the process pipe all the way through to the machinery that goes into those petrochemical plants, so I think the totality of the industry should have the support of this committee and of this province.

Mr. Mackenzie: In your Macdonald commission report, you make the comment, and I forget the exact words now, that we should take this leap of faith and enter into the free trade agreement because the alternative was something you certainly did not cotton to, and that was the threat of a planned economy. Is it really the free trade deal or a threat of a planned economy or government intervention that is disturbing you?

Hon. Mr. Macdonald: In fairness to the other commissioners, that was not said in the report. That is a statement I made, as the chairman pointed out, in November 1984. I will be quite honest with you, Mr. Mackenzie. I spent nearly 20 years in Ottawa looking at attempts to try to direct the better performance of the economy from the centre, and I have to say that very few of those programs succeeded. I think one of the better ways to induce a decline in the standard of living of this country would be to pretend that there are maybe five, 10 or 15 wise men sitting at the centre of the country planning how the economy will go. It will not go that way.

Having said that, I also think it is important that we open up opportunities for the people who really will create the jobs, for the entrepreneurs in Canada, to develop markets in the United States for Canadian and Ontario products. That is what a free trade area agreement does.

Mr. Mackenzie: I will not get sidetracked on that, but when I have gone through some of the Consolidated-Bathurst plant closures, some of the Cooper-Firestone operations and some of the others, I really wonder whether this kind of an unfettered marketplace is going to be better for people in this province and this country.

Hon. Mr. Macdonald: I guess I would have to say that sure, we can have a dirigiste economy, a totally planned economy and a very much more expensive economy and a lower standard of living.

Mr. Mackenzie: It is a mix. Nobody has usually argued for a total. It is something like the naysayers' argument. I get a little bit annoyed at that, because I have never heard nastier comments than I heard, for example, coming from Mr. Reisman when it comes to those who may not happen to support

the agreement. Some of us, fortunately, do not support the agreement and our record is pretty good in terms of being Canadians and not naysayers.

Hon. Mr. Macdonald: I might have to say just one thing and that is, the last thing I would ever pretend to do is to speak for Mr. Reisman.

Mr. Mackenzie: The other thing that bothers me a little bit, and I guess this is political, but I see a very impressive delegation that you have here today and I do not see among it a single worker or trade union group. You can find them, but you will find very few. I do not see any of the major social groups or church groups. I know there are now splits in the consumers' organization over this, although you may have a statement from one of the key people in it. I see the banks. I see the Ontario Chamber of Commerce. I do not see the antipoverty groups or the ordinary people groups.

I have to tell you very frankly that when I measure some of the things that may affect us in this country, and I go back to some of the fights over pensions, medicare and certainly over safety and health in the workplace, I get very suspicious when I see a real push for an agreement like this that is coming almost entirely from the business--and basically big business--and financial communities in this country.

Hon. Mr. Macdonald: Just let me correct that big business comment, because you have here representatives of small business from two different organizations.

Mr. Mackenzie: One of them did a very nice job with letters to all the business people in my riding, and it backfired. We had the biggest majority in our history because we used the letter to show them how dishonest it was.

Hon. Mr. Macdonald: We have small business. You may regard small business as dishonest; I do not. I think they play a fundamental role in our community and this business community does too. That is right, we do not have the support of the Canadian Labour Congress.

Mr. Mackenzie: Or the churches or the antipoverty groups or the women's groups.

Hon. Mr. Macdonald: Some churchmen, please. We do not have them en masse, but we do have them. These people have their careers, their capital and the future of their companies tied in this economy. They have every right to have a voice in this committee and in other committees across the country. They are entitled to express their views, and I think they are entitled to respect for their views. They have a lot to lose in this if they have made a mistake on this one, and the answer is that they have decided it is to the benefit of themselves and their employees that we have a more liberal and more open market here in Ontario and in Canada.

That is the viewpoint. I suppose ideologically you will not accept it from them, but I put it to the broader community. These are people who have very important investments, as I say, in their careers and their businesses, and they are coming forward and saying: "Yes, we as Canadians can do it. Do not listen to the people who say we are not good enough. We as Canadians can do it." That is the point I would make.

Mr. Mackenzie: That comes from both sides.

My final question is, I guess, a more personal one, and you can tell me to go to blazes if you like. Are you still with the Liberal Party or are you now a Conservative?

Hon. Mr. Macdonald: I am with the Liberal Party, but I bear in mind that line of Will Rogers: "I do not belong to an organized political party. I am a Liberal."

Mr. Mackenzie: We understand that very much in this committee.

Hon. Mr. Macdonald: I would have to say to you that I was in this position first and some of them have deviated. You talked about the churches. Redemption is always possible and I am prepared to welcome them back.

Mr. Beer: On that religious note, we will move on to some other areas of the agreement. I do not think anyone on our side of the House doubts your integrity or intent or that of the representatives here today and in your organization. I think there are some legitimate questions we have had with respect to the agreement relating to what it was hoped this was going to achieve for us. I suppose one of the fundamental themes that has been of concern to us has been the question of sovereignty. What I would like to do is to relate that--perhaps it helps by way of examples--specifically to the energy area. I do that partly because of your own experience in that area.

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I am wondering what it is about that aspect of the agreement in particular--there are clearly some obvious advantages such as uranium which you mentioned. From the perspective of the country, would you not be concerned about aspects of the proportional access provision and the relative power and authority then of the federal government to be able to act in that area once this agreement has gone through? What in your mind are the tradoffs, if you like, that we made there which would make that section a positive benefit for you?

Hon. Mr. Macdonald: I think the first benefit is that you are dealing with a number of commodities which, when they are in surplus supply on the world and North American markets, American private interests have been adept at trying to keep Canadian products out of the US market. We achieve some protection from that.

I referred earlier to the uranium embargo and equally to President Nixon's partial embargo of oil back in 1973. I think we are in the position now in Canada--we have a very substantial surplus to our needs of all five of the major energy commodities, four of which we export to the United States, and obviously it is going to be an important element of advantage not so much for this province but for other provinces in Canada to be able to exploit their energy endowment in terms of export sale.

I think the agreement enhances that in the first place by providing restriction against the kind of restraints we have had before and also by dealing with what has been an American grievance against the measures--I will be candid with you--that I was responsible for in the winter of 1973-74, whereby American communities and firms that had become dependent on Canadian supply were very substantially cut back.

Let me just say with regard to sovereignty that the agreement deals with national and international trade in energy commodities, but in no sense

restrains the ability of Hydro-Québec to determine the rate of James Bay development or the Alberta Energy Resources Conservation Board to determine at what rate Alberta hydrocarbons will be developed and produced. That decision continues to rest where it has been put in the Constitution, namely, with the provincial governments. When we make private contracts with American purchasers, only then at that point and where reduction of supply is dictated, will we be required to reduce it in the same proportion to our foreign customers as to our domestic ones.

I was in Newfoundland this last week on behalf of the Canadian Alliance for Trade and Job Opportunities discussing offshore development with them. I think there was widespread recognition that this will make it easier for the offshore to develop because it deals with a complaint which domestic opponents of this in the United States have made, which is: "Those Canadians. You can build a pipeline and they can start bringing their stuff to shore, but when we really need it, it will not be there." If we want to do business in the energy sector in the United States, we have to be prepared to treat them as reasonably as we treat our own people.

Mr. Beer: We have heard testimony before this committee that raised questions about the potential power or authority of the National Energy Board or Ontario Hydro to deal with some questions of pricing. I take it that your feeling is that those would not be issues.

Hon. Mr. Macdonald: Let me talk first in terms of the NEB and the federal jurisdiction. The principal beneficiaries of these provisions are the energy-producing provinces, in particular with regard to hydrocarbons in Alberta, and to a lesser extent, British Columbia and Saskatchewan. I lived through the period when there was enormous resentment in that province--I was at the core of their resentment; it goes back to the middle 1970s--that in effect we were keeping their prices down but they were still having to pay full prices for automobiles, machinery, equipment and all the things we produced in Ontario. I think I have to say it is positive, not only from an American standpoint but also from the sense of balance within the country that we now have this recognition that national two-price systems should not be imposed.

Mr. Beer: None the less, is there not in all you have said the fact that the federal government's ability to affect overall energy policy is limited by this agreement, whether one thinks that might be good or not, and that the situation would now be that you could not do some of those things that you did or that occurred in the late 1970s? One might agree or not agree with those policies, but is that a step we want to take?

Given the relative sizes of the two economies, all the talk about trying to find a level playing field and just looking at the economic history of this country, have we not developed a role for our federal government in economic development which is very different from that of the Americans? That development has responded to a particular Canadian need in terms of the nature of our population and the nature of our size. Should we not be looking very carefully before we would appear, in our view, to be limiting that authority?

Hon. Mr. Macdonald: I think that if you look back and think about some of the things the federal government did--I think of the original building of the Trans-Canada Pipeline, the northern Ontario pipeline section in particular--there is nothing in this trade agreement which would have prevented a development like that, just as there is nothing in the agreement that would prevent the government of Canada from lending strong support to the

development of offshore collecting systems from the Atlantic coast. That kind of development, I agree, or at least I would maintain, is not affected.

There are other policies we have followed in the past--for example, two-price systems or surplus requirements--that they will not be able to do. In public negotiations and private, I think you have to make some tradeoffs in order to get certain objectives. Personally, as a former Minister of Energy, Mines and Resources, I am not uneasy at all about it. In fact, I feel some relief at the provisions that have been made in the agreement.

Mr. Beer: Just one final question on that aspect: It has been said that what will now happen under the agreement is that the problem will now lie not so much with the United States government but rather with the private sector in the United States in terms of what it could bring in the way of charges against Canadian policies, that it is no longer so much the American government and the Canadian government that would be trying to come to terms on different energy issues, but it would be caused by the American companies in whatever area. In that context, it is the softwood lumber or shakes and shingles precedents which are most worrisome, because that now is enshrined, if you will, in the agreement.

I think it is fair to say that the Ontario government felt very strongly that this was bad, that it was unfair, and yet that forms part of the precedents which the agreement accepts. Does that create problems down the road for us in areas where the United States may choose to bring cases before this binational disputes mechanism?

Hon. Mr. Macdonald: I guess I would have to say that I would like to hear those concerns developed more fully. I have not heard them precisely. I would say I have heard--when talking about the subsidy and countervailing duty question in relation to energy, the agreement specifically permits government incentives, both federal and provincial, for the development of hydrocarbons.

Let me say that I think there may be a problem. It is not solved by the agreement, nor would it be it solved by tearing up the agreement. It may well be that the private power or coal interests in the United States may seek to bring countervailing duties suits, primarily against Hydro-Québec or Manitoba Hydro or British Columbia Hydro and Power Authority rather than Ontario, but those kind of suits may result.

As I said in my comments to Mr. Mackenzie earlier, we have not overcome that particular problem, but as I say, it is not something you escape by tearing up the agreement. It is a problem we have to live with in both ways.

Mr. Neumann: First of all, I would like to compliment you on your presentation and the thoroughness of it. You certainly have an impressive group of supporters along with you.

I must also say that as a representative of a community which went through a lot of dislocation in the early 1980s with plant closures, we relied upon entrepreneurial investment in the community to diversify our economy. Many of those investors were looking at the export market, and particularly at the location of Brantford and its proximity to American border crossing points, new investors.

agreement. First, you place a lot of stock in the general reduction of tariffs and the benefits that will create for the economy. I know that for manufacturers in our community, the difference between the Canadian dollar and the American dollar, the exchange rate, is very significant, perhaps more significant than the benefit from some of the tariffs. What is your opinion with regard to longer range projections? We have heard some evidence before this committee and some concern expressed elsewhere that the Canadian dollar will gradually rise in relation to the American dollar and we will be losing some of the benefits we may have gained from tariff reductions.

Hon. Mr. Macdonald: I do not think one can be quite certain about that. I noticed over the past five years, when the Canadian dollar was driven down to close to 70 cents, that what was happening was movements on the capital side. People were not investing in Canada, and indeed, Canadians were investing elsewhere. If there is a belief on the part of investors, both Canadian and foreign, that this is going to give Canada better access to the US market, then it will have that effect of pricing the dollar up. We will see a substantial investment flow. I do not know that one can predict this.

I would have to say that, yes, an upward change in the value of the Canadian dollar is going to have an impact on the competitiveness of Canadian firms. On the other hand, the reduction of the tariff will have a positive impact so that if there is a prospect of the dollar going up in value, there is at the same time the tariff coming down. I think world exchange markets have been so uncertain that it would be a far braver person than I who would try and predict what the secular direction of the Canadian dollar is going to be.

Mr. Neumann: One of the things this agreement does is to open up Canada to American investment much more freely than in the past. It prohibits future governments from placing restrictions on new investment. We must, of course, take a very long-range view with this agreement. We are talking about decades to come. Therefore, we can look back a few decades for some precedent in a period of Canadian history when there was a lot of capital inflow of new foreign investment. That pushed the Canadian dollar to par or perhaps even greater than par. This would have, Mr. Macdonald, a devastating effect upon the ability of manufacturers in my community to compete in terms of exports to the US. Do you see any danger from a dramatic increase in foreign investment pushing the dollar up?

Hon. Mr. Macdonald: I would have to say, Mr. Neumann, that I think it is always possible. It is a reflection of economic success and that could happen.

At the time I was Minister of Finance, the dollar was at a four cent premium over the United States dollar. I accorded that largely to the fact that on the international terms of trade and the energy shortage, Canada was seen, because of its substantial resource endowment, to be a sound place to invest. I do not think the resource boom is going to occur to us again and be one of the reasons. Why go for a trade agreement? Because I think manufacturing is going to be more and more our vocation. I acknowledge to you that if the dollar is priced up, then whether we have a trade agreement or not, we are going to be in a far more difficult competitive position.

Mr. Neumann: Our very first Prime Minister, John A. Macdonald, the same name as yourself--

Hon. Mr. Macdonald: He even spelled it the right way.

Mr. Neumann: --was part of a group of Fathers of Confederation who had a vision of building a nation from sea to sea on the northern part of this continent, recognizing the smaller population that would exist and the need to develop east-west transportation links. Later on, people followed in their footsteps, developing communication links such as the Canadian Broadcasting Corp. and the telephone systems.

Recognizing the threat to a nation of having all the ties flowing north-south, and with the phraseology coming out of the United States referring to this agreement as an economic constitution for North America, do you see dangers to the future of our country in totally putting our export and import plans into this agreement, rather than taking a world view as Lester Pearson did when he was leader of the Liberal Party?

Hon. Mr. Macdonald: Mr. Neumann, I think this is consistent with taking a world view. We are trying to finally give up the shackles of an antiquated tariff system and put Canadian industry on a competitive basis, first with the United States. If we can be competitive with them, then we have prospects of being competitive with other parts of the world.

If I can adopt a historical theme as a continuum from that first trade agreement in 1935 with the United States, then the one in 1939 and then the successive reductions of tariffs within the General Agreement on Tariffs and Trade, most of which were negotiated face to face in a bilateral deal with the United States I see this as consistent with moving away from the old National Policy of Galt and Macdonald and recognizing that Canada is a mature market and that Canadian firms can afford to compete. In that sense, it does represent a change. I do not regard it as an economic constitution. We will still continue to have the full ability to develop economic policy in this country.

Let me say something more. I think the ability to make our own decisions and ultimately to exercise sovereignty is far more likely to come from a growing, strong economy than from one that is either in stagnation or decline, which could well be the risk if we do not get access to better markets.

Mr. Neumann: But would you not agree that if lower tariffs are the goal, Canada has been working along with many countries in the world towards that goal on a world basis? This agreement puts in specific stipulations as part of a Canada-US agreement that restrict the ability of future Canadian governments to make decisions on a national basis in the field of energy and perhaps in screening foreign investment. If some future government wanted to do that and saw the need to do it, it could not do it.

Hon. Mr. Macdonald: I interpret the Canadian tariff policy for the past 50 years to be different. Basically, we have negotiated all the important deals, from the 1935 agreement through to the auto pact and the Tokyo Round, with the United States. It may look like a multilateral agreement within GATT, but it has really been a set of bilateral agreements that we have made. I am not concerned about that.

I might just make a comment with regard to controlling investment. We are not giving it up altogether under this arrangement. It has been agreed--the Americans have conceded--that for takeovers in excess of \$150 million capital value, indeed they can be scrutinized. Quite frankly, that is the level at which it should be scrutinized, not as in the old days when I was in cabinet when we were looking at every takeover of a fishing lodge in northern Ontario. It is the big firms we have to be concerned about in that regard.

I have to say I am not concerned about that. This is where the faith comes in, my much reported leap of faith. I have a lot of faith in Canadians (a) being able to compete and (b) in their belief that they are a mature country capable of looking after their interests.

I have used a sporting analogy in the past. If some of the nay-sayers, as I call them, were around at the starting line with Ben Johnson, they would be saying: "Ben, you should not be here. You cannot compete with that guy Carl Lewis. He is a world champion." I am glad those guys were not around. I hope economically they will stay away too.

Mr. Neumann: I have a lot of faith in Canadian industry to compete too, but I am wondering, with the tremendous decline in the value of the American dollar and the Canadian dollar along with it on a world basis, whether or not the opportunities for export are perhaps even greater in Europe and Asia in the long run.

Pointing to one specific example in the 1970s that you referred to, when we developed a national energy policy, eastern Canada was reliant on imported oil. When the world price of oil went up considerably, we subsidized consumers in eastern Canada and businesses and manufacturers in eastern Canada by putting an export tax on oil being exported from western Canada to the United States. Could a future government do that again under this agreement specifically?

Hon. Mr. Macdonald: Probably that specific policy, no. I guess I would have to say the ultimate reaction against that policy did not come from the United States; it came from Alberta. I guess I would have to go back to the concept of a balance within Confederation. If from time to time the products they buy from us and from other parts of the world are going to go up on the world market, taking it very fairly, why should not their principal product as well? It is a kind of concept of equity within the nation.

I would have to say in that sense that I acknowledge that our policy started for short-run reasons in dealing with the crisis and stayed around far too long. If you say to me, "Would you do that policy again?" I would say, "No, I would not do that again."

Mr. Neumann: Perhaps there are different views of equity.

If in the future oil prices went up again--and things can go in cycles--you say you would not agree with the two-price policy, but we could find a nation, with the part of the country dependent on western oil having low prices exporting to the US, and the eastern part of the country facing huge prices from imports.

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Hon. Mr. Macdonald: If you are going to price it at world levels, whether the source of oil is Kuwait or Alberta, except for transportation, costs you are going to be charged the same price.

Mr. Neumann: I could go on, Mr. Chairman, but I know you have a number of other questioners.

Mr. Chairman: I am going to let this discussion go on until 3:15 unless I hear any opposition. Of course, we will not cut back the Trust Companies Association of Canada.

Mr. Kozyra: Mr. Macdonald, let me first say that for Canadians, I only hope your assessment is correct. On Thursday, we had a representation from the Ministry of Labour. It raised some concerns your presentation has not touched on. I wonder if you would comment on that.

Specifically, the concern was that there is not an equality between Canada and the US now that specifically 18 American states do not have a minimum wage. It is felt that Ontario workers and Canadians in general enjoy benefits better than their American counterparts. That being so, there would be tremendous pressures from the American corporations' side and also perhaps, from the Canadian corporations to level that off to the detriment of Canadians, specifically Ontarians. I wonder if you share those concerns, whether that is a valid assessment.

Hon. Mr. Macdonald: Certainly, there are jurisdictions in the United States which do not have the same level of social benefits and basic labour standards as other jurisdictions in the United States do.

Personally, I am not concerned about that. A good example of the competitiveness of Canadian industry has been under the auto pact, with the individual Canadian parts manufacturers. I think a competitive Canadian plant will continue to succeed, whatever the differences.

Basically, I do not think we need to be concerned about plants which are founded on low-wage policies. Yes, we are going to have troubles with those which are modernized plants. Improve the quality of jobs here in Ontario and I think they will be competitive.

When one talks about, say, the textile industry having been moved down to the American south and some of the other labour-intensive industries of that kind--ones, incidentally, which are in trouble on a world basis, anyway--yes, we are going to have difficulty competing with those, but we are going to have difficulty competing with those, trade agreement or not.

Mr. Kozyra: If those types of pressures occurred to force down the Canadian benefits gained, would this very impressive and powerful group of Canadian manufacturers and businessmen go on record as stating they would oppose that type of erosion of the rights workers have gained over the past 20 or 50 years?

Hon. Mr. Macdonald: My instinct is to say that would be their reaction. They recognize that the strength of the Canadian workforce has been the kind of balance between management and labour which has existed and, in most areas, is well respected between the two. I cannot commit them on that, but it is a point I will take back.

Mr. Pelissero: I should tell you where I am coming from at the beginning. I represent an area that represents some of the tradeoffs, Lincoln and the grape industry. You identified in any negotiating process that there are gives and takes, and I recognize that.

As we get further into the details of the agreement, I could not agree with you more in terms of taking time to analyse it. I know at one time Premier Peterson called for a six-month delay, setting things back six months to look at it.

In terms of the legal text, I would also point out for the record that this is the first governmental committee since January 2, since the signing of

the deal, to really take a look at the legal text. Would you support a six-month delay to allow individuals and some businesses to try to understand the long-term ramifications of this particular deal?

Hon. Mr. Macdonald: To do so is to risk the possibility of losing all. There has been a moment of time, a moment of opportunity in our negotiations with the United States, where what has otherwise become a very restrictive, very protective society has been prepared to engage in negotiations and to support closer trade arrangements with us.

I cannot predict the future, but I do think I can see through, I feel, a 60 per cent to 70 per cent chance of success now. I would not prejudice that by a six-month delay. I guess if he said we should take six months to think it over, why did he not take six months to think it over before he came out against it before the agreement was out?

Mr. Pelissero: Or the converse argument is, why did the federal government not take six months to allow individuals to study the full text without having to rush signing in three weeks?

Hon. Mr. Macdonald: Except that we are in a position now of having to bring forth the implementing legislation in Parliament, and Parliament is going to have to make its decision on that in due course. But I think there is a moment of opportunity here which, if it is not taken now, may not come back for many years.

Mr. Pelissero: OK. Would you agree with Mr. Winegard, chairman of the federal committee, when in one of his recommendations he stated, or the committee really stated unanimously, that if Canada is not exempt from the omnibus trade bill and the protecting legislation that is going to be coming forward, we should rethink the whole free trade agreement?

Hon. Mr. Macdonald: I would phrase it in a different way. I think the ideal thing would be to pick up some of the wording that is in that omnibus trade bill now exempting United States free trade area partners prior to a certain date. It is really to get an exemption for Israel. I think they should extend that timetable to include this agreement.

If we find in the ultimate omnibus trade bill that is produced that, contrary to what the Americans have said they will do, contrary to their undertaking to have a standstill on restrictive trade measures with regard to Canada, we find there is a substantial tilting of the field against Canada, then I do not think we would have any choice but to say, "All right, you have changed the deal we negotiated, and therefore you cannot really expect us to ratify it."

Mr. Pelissero: Two quick points in conclusion. First, we have heard studies and suggestions that there could be anywhere from a 300,000-plus job gain to a 400,000 job loss to the most recent one, I think, from the federal government, which was 125,000 jobs over a period of time. What would your best guesstimate at this particular time be in terms of job creation for Canada?

Hon. Mr. Macdonald: I have said before and I repeat again: I do not think that is a useful kind of calculus to make. I do not think you can calculate it either for or against, because economic development is a dynamic process. For example, to say, "These are the given facts on how industry has succeeded in the past; if that kind of tariff protection changes, then of course these jobs are going to be lost," is like saying that a man is going

downhill in a car with the prospect of going over the cliff and he will not put his hands on the steering wheel or the brakes. In fact, management is faced with those kinds of competitive facts. We will adjust to them.

Some of them have been done as long as 20 years in the past trying to estimate the economic effect. In microeconomic terms, they do not persuade me. What I am persuaded by is the long-run experience with regard to liberalizing trade: namely, it does enhance economic development.

Mr. Pelissero: Lastly, more for a lot of the constituents who ask me, "When will I be able to drive to Buffalo and bring goods across duty-free?"

Hon. Mr. Macdonald: It depends what kind of goods they are. On some of them, January 1, 1989; on others it may take up to 10 years.

Mr. Pelissero: Will there still be a sales tax of types, or an excise tax that they will have to pay regardless of the free trade agreement?

Hon. Mr. Macdonald: Yes. Any domestic Canadian taxes will have to be paid. Mr. Wilson has promised us a whole new array of commodity taxes, or at least commodity taxes to replace both provincial and federal sales taxes that exist, to deal with a whole array of products that are not covered. That tax presumably, when it comes into existence, will apply here. The Canadian taxes will continue to be there. It is customs duties that would, over time, disappear.

Mr. Pelissero: Just in closing, for the record in terms of the sections you did not read in your brief, talking about agriculture on page 9, the Ontario Milk Marketing Board is unaffected. I assume that applies to the chicken, egg and turkey boards. I would point out that those marketing boards, structures and systems that are in place were never meant to export. Their sole function is to meet domestic demand, so we should take little consolation in the fact that they were unaffected, because their sole purpose has never to export, anyway.

Hon. Mr. Macdonald: Well, I guess I would have to say that the other supply control marketing board that is dealt with by the agreement is the Canadian Wheat Board, and under certain circumstances--namely, when the level of United States supports get down to the level of Canada--then wheat, oats and barley will be able to come into the Canadian market in a competitive way.

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Mr. Pelissero: In that process, by doing away with the two-price wheat system to wheat producers in Ontario, it is going to mean a loss of about \$25 million. We still have not had, I do not think, adequate discussion in terms of how that \$25 million is going to be made up, from which levels of government. Is the \$25 million that is going to be made up going to be a countervail action or a subsidy that the United States may take exception to? Their viewpoint is different. According to the Globe and Mail today, their viewpoint is entirely opposite in terms of the wheat industry vis-à-vis what we want out of the free trade agreement. Again, there are a lot of questions.

Hon. Mr. Macdonald: I must say that Esmond Jarvis, the Canadian Wheat Board--and indeed in talking to the western pools--think they recognize over the long run that they can penetrate the American market in ways they have not been able to do and they are philosophical about losing the two-price wheat.

I guess one would have to say to a degree that the reactions of Mr. Miller, another American spokesman, as quoted in the Globe and Mail this morning, would seem to confirm what Esmond Jarvis is saying, that yes, Canadian wheat can be very competitive in the US market.

Mr. Pelissero: As long as the bankers are philosophical when it comes down to making some of the principal and interest payments, then I will not have any problem.

Mr. Chairman: Mr. Haggerty may have some questions about buying Buffalo.

Mr. Haggerty: I appreciate Mr. Macdonald's comments, but there are two areas I am concerned about. You talk about the protectionist move, the mentality of Congress and the present omnibus bill, then you go on to say that there is no perfect agreement. Then you come back and say we are going to get rid of the remaining tariff barriers. We are talking about 20 per cent. In other words, we almost have a common market with the United States in the present trade.

Hon. Mr. Macdonald: About 30 per cent of Canadian exports are still affected by the US tariff; therefore, 70 per cent are not.

Mr. Haggerty: That is one of the problems we get. It is 20 per cent and it varies each time somebody comes before the committee.

Hon. Mr. Macdonald: Mine is the right answer.

Mr. Haggerty: I thought you were a little more liberalized. That is a pretty tough statement to make, saying, "I am all for this but there is no perfect agreement."

Hon. Mr. Macdonald: As I said, there are elements that I would like to have seen in this trade agreement.

Mr. Haggerty: What are those elements?

Hon. Mr. Macdonald: For example, to have negotiated on antidumping, the abolition of antidumping duties between the two countries and on subsidies and countervailing duties; negotiating a code of conduct as to what is a permissible subsidy and what is not for the purpose of countervailing duties; an illumination of the buy America provisions under US state law and giving up some of the provincial procurement provisions we have in this country. I think it would have been in the interests of both in the long run to have done that. Both of those are questions still to be negotiated or to be negotiated again.

In relation to the imposition of countervailing duties, I would sooner have had this as a process of first treatment, to have had those actions taken to a binational arbitral tribunal rather than to domestic courts. We did not get that. Therefore, we remain in the situation we would be in if there was no trade agreement.

Mr. Haggerty: There is a country that will perhaps gain more out of this than the United States and Canada, that is, Japan. Just recently, in the December 11 signing of the document, it was 60 per cent Canadian and American content in the automobiles. It has been changed now. It is a level playing field, you might say, 50-50.

Hon. Mr. Macdonald: Fifty per cent North American content?

Mr. Haggerty: Yes, 50 per cent, but Japan is coming through what Americans call their transplant industries here in Ontario. They are a little bit concerned about it.

Hon. Mr. Macdonald: With regard to those automobiles, to the extent that you have Japanese companies that would qualify for the auto pact, then they are going to have to attain that North American content. Otherwise, they are not going to be able to flow through.

Mr. Haggerty: It will be 50-50. That is a 10 per cent drop, and that is a considerable part of the market. What some of the Americans are looking at right now is, yes, you will see the name Ford, General Motors and Chrysler on the vehicles, but really it is going to be 50 per cent foreign parts in that automobile industry. There are some members of Congress right now who are concerned about this, and they are talking about applying another part of the omnibus bill, saying this has to be changed.

To sum up the article I am quoting from, there are problems in Michigan; there are problems outside of the area I represent, in the Niagara region on the American side, with the automobile plants. Some of the parts industries have moved off and gone to Mexico to produce parts there, paying labour \$22 or \$24 a week.

We find the spread between labour in the manufacture of automobiles in Germany is about \$2 less than what it is with North American cars; in Japan, it is about \$8. When you find the differential on wages and the fluctuation of the American dollar--it can go up and down like a yo-yo from day to day, with the financial institutions buying and then creating a market, a climate--I guess it may be to their advantage there.

If, for example, the American dollar were to drop considerably--and it has been mentioned in previous reports to the Legislature that by 1995, the American dollar differential would be five per cent--what advantage is there then to Canada?

Hon. Mr. Macdonald: Assuming the Canadian dollar tracks that in part, from a Canadian standpoint, Canadian products will have a competitive advantage vis-à-vis the rest of the world. At the same time, we are going to have to bear an additional cost to the extent that we are dependent on offshore product. If the Canadian dollar tracks the US dollar down, we will be more competitive in the things we manufacture, but also we are going to have to pay more for the things we import from offshore.

Mr. Haggerty: But it is not the Canadian dollar that is going to do it; it is what the investors do, the moneychangers. They can make the dollar go down; they can make the interest rates go up. They can do that from country to country for investment purposes.

One of the concerns I have here, with the backing of the delegation with you, is in the investment area alone. I am concerned about it, when you say, "We'll open the door now and Canadians can invest in the American market."

Hon. Mr. Macdonald: I guess I would have to say I think that--

Mr. Haggerty: In what areas, though? Are we looking at securities, bonds or what areas of investment?

Hon. Mr. Macdonald: If you are talking about the financial markets, I think they have basically been open since the end of foreign exchange control in Canada. We have had a North American market, if not a world market, in terms of securities. They can invest in anything they like and it will probably only be determined by the relative rate of withholding tax in various areas.

With regard to the investment in plant and equipment, in the long run that is going to depend on the relative competitiveness of the various jurisdictions. I think there is considerable capacity. The group I represent here is confident that there is capacity for Canadian industry to remain competitive, not only in our own market, but to be able to penetrate the American market.

Mr. Haggerty: I have just one more question in this area. In the area of investments alone, when, for example, Ontario Hydro, Hydro-Québec and Newfoundland and Labrador Hydro want to go to the market for capital, they go to the American market. Now you are telling me that through free trade we are going to have the door open for investment to go to the United States.

It does not make sense, does it?

Hon. Mr. Macdonald: The trade agreement does not affect the access that Canadian utilities have had to the American market. That has been favoured, of course, by taxation policies that have existed for many years in terms of withholding tax. I would have to say that one element of the agreement does favour further floating of Canadian public securities on the American markets, in the sense that it will now be possible for Canadian security houses to make a market in these Canadian securities within the US markets. If it is changing at all, it is changing to the advantage of the Canadian security houses.

Mr. Chairman: I am going to have to cut this off. I have just received word that Mr. Evans of the Trust Companies Association has to catch a plane and leave before four o'clock. I did not realize that. I apologize, particularly to Mr. Morin-Strom and Mr. McCague, whom we did not reach, and Mr. Mackenzie and Mr. Neumann had second questions. Obviously, a lot of people had a lot of interest. I appreciate your presentation, Mr. Macdonald. It was obviously well prepared, well thought out and evoked a lot of discussion.

Hon. Mr. Macdonald: Thank you. I appreciate your adjourning at this point. I have to go and teach a law school class now.

Could I just say thank you very much? I think the view of our association as we leave is as we began. We know that you passed a negative resolution against this agreement. We hope you would rethink that and see that this is indeed an advantage for Ontario, as for other parts of Canada.

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Mr. Chairman: Your argument was very strongly presented. Thank you very much, and thank you to all the delegations. I know we will be seeing some of you later.

Speaking of investment, Mr. Haggerty, our next witness is John Evans, the president of the Trust Companies Association of Canada. Mr. Evans, would you just care to have a seat there? If you have an opening statement, please go ahead. I apologize for starting late, but we did have a lot of interest in

our previous delegation, and it seemed appropriate to go a little over the hour.

Mr. Evans: I can certainly understand that.

Mr. Chairman: We just did not realize at the time that we could not go over the four o'clock hour with yourself. Please carry on.

TRUST COMPANIES ASSOCIATION OF CANADA INC.

Mr. Evans: I do have an opening statement. I have copies that can be distributed, if you so wish. I can abbreviate those to allow members more time for questioning, if that would be your preference.

Mr. Chairman: That might be a good idea at this stage.

Mr. Evans: By "abbreviating" I mean I will cut out the middle.

Let me begin by thanking you and the members of the committee for inviting me here today to share the views of the Trust Companies Association of Canada on the important subject of the Canada-US free trade agreement as it pertains to financial services.

The basic premise of the association is that anything which promotes the economic welfare of individual Canadians or Canadian business is beneficial to the Canadian financial services industry. This follows from the fact that Canadian financial institutions earn their livelihood from financing the growth and development of the nation. Thus, anything which advances economic growth and development increases the demand for financial services and thus provides our industry with new business opportunities.

We further believe that within the financial services industry, trust companies are better placed than most to take advantage of new opportunities. This follows from a number of important facts.

First, we are very well capitalized and do not have significant problems with either foreign or domestic nonperforming debt. For example, unlike the chartered banks, the trust companies have not engaged in appreciable offshore lending, nor have we historically engaged in extensive commercial financing of the resource sectors of the economy.

Second, we have shown ourselves to be among the most innovative and competitive institutions in the financial services industry over the past decade. Examples are variable rate and term mortgages, daily interest chequing and savings accounts and full-range personal financial planning and management services. This has resulted in significant growth in the consumer market. Canadians in increasing numbers are viewing trust companies as the preferred source of financial services.

Third, the new federal and provincial legislation will allow trust companies to broaden the services which can be offered to Canadian consumers and businesses alike. Our financial strength, innovative character and competitive expertise will allow us to pursue these new opportunities with vigour.

In summary, then, from this perspective we can see nothing to fear in the Canada-US free trade agreement. It is true that existing discrimination against foreign financial institutions will be removed as a result of the

agreement. However, we do not see this as a major threat, for a couple of reasons that I can elaborate upon.

The large commercial lending market--the commercial lending market for large firms, for example--has been fully international for a number of years. Larger Canadian companies no longer restrict themselves to domestic institutions in their search for funds. Canadian chartered banks have done very well in the international arena.

With regard to the smaller Canadian commercial lending market for smaller loans, foreign banks have been active competitors in this area since 1980 and they have not made major inroads at the expense of the Canadian banks or of other Canadian financial institutions. At the same time, Canadian banks have proven themselves very capable of doing very well in the United States market and in other markets throughout the world.

The insurance field has been fully open to foreign competition for generations, yet this has not threatened the health of the Canadian industry. Indeed, Canadian companies have established a sizeable positive balance of trade in life and health insurance over the years. Our companies compete very well with the Americans on their turf or ours.

The consumer and financial services business is largely conducted face to face and generally requires that institutions have a branch network to access that market. Branch networks are very expensive to establish. Furthermore, virtually all of the prime branch locations are already occupied by Canadian deposit-taking institutions.

So long as we remain competitive and responsive to consumer needs, there is very little to fear from foreign entry into this area. Indeed, foreign financial institutions have always been allowed to establish new trust and loan companies in this country and thus have been capable of entering into this area of the consumer financial services market as well, yet we have not seen a significant influx of foreign competition.

True, the new agreement will allow foreign takeovers of Canadian trust and loan companies for the first time since the early 1970s, thus allowing the acquisition of established branch networks. However, governments have mechanisms in place to evaluate all takeovers, whether they be foreign or domestic, to ensure that these are in the public interest. I would suggest that if takeovers are to occur of the existing Canadian trust companies, they will most likely be undertaken by the Canadian chartered banks, as has been witnessed by recent experience in the securities industry.

To sum up, Mr. Chairman--I will not complete my statements, but I think I can complete with this--overall, the trust companies association does not see a major threat to the Canadian financial industry emerging from the Canada-US free trade agreement. On the contrary, as I mentioned earlier, we see significant new opportunities. For all the previously cited reasons, we do not fear the influx of foreign competition. We believe that we, and not foreigners, will be the major beneficiaries from these new opportunities.

I might say that the statement goes on to look at some of the opportunities we see in the United States market. It looks at some of the reasons we believe that the economy of the country will benefit from the free trade agreement; it cites some of the major economic studies that have pointed clearly to this, including the ones done by my former colleague Mr. Macdonald, who just appeared before you; and it also then has a summary and conclusions

at the end which essentially reiterate our strong support for the free trade agreement in the forum of the trust companies association.

With that, I would be more than happy to try to respond to any questions the committee might have.

Mr. Chairman: We appreciate your presentation, Mr. Evans. We appreciate your shortening it, and I am sure that when members have an opportunity, they will go through it all with some care.

I have questions from Mr. Morin-Strom and then Mr. Neumann.

Mr. Morin-Strom: Mr. Evans, you start off in your presentation saying that you support anything that promotes the economic welfare of individual Canadians and Canadian business as beneficial to the Canadian financial services industry. Later you go on to say that you believe the overall preponderance of evidence is that this will be beneficial. How is it, then, that there is such strong opposition to this agreement across this country and that, in fact, the support for the agreement is roughly 50-50 across Canada? Where is your evidence that it definitely is going to be positive?

Mr. Evans: I think we have to distinguish between evidence that indicates there will be positive economic benefits for the country and the fact that some people disagree with the policy. I do not think you have or you can produce one credible economic analysis that does not indicate that there will be positive employment and growth benefits for this country emanating from the free trade agreement. There is not one credible study that I have seen.

My background is that I have a PhD in economics. I was an economics professor. During my parliamentary career, I was chairman of this committee, the equivalent committee in the House of Commons.

Mr. Morin-Strom: And the reverse can be said for the other side of the argument as well.

Mr. Evans: Excuse me?

Mr. Morin-Strom: That there are holes or flaws in the assumptions in any of the studies that show the reverse.

Mr. Evans: Well, I have not seen it. Let me put it this way: There is not one study, holes or no holes, that indicates that there will be negative job effects, that there will be negative impacts on economic growth. Yes, every study has certain assumptions; studies have to have assumptions to be conducted. But no study shows negative impacts on a global basis, coast to coast. Indeed, the Treasury study that was done here in Ontario just recently indicates positive effects for the province of Ontario, contrary to the views that have been expressed.

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Mr. Morin-Strom: Extremely minor, based on a critical assumption that our exchange rate will be fine in the short term, which they admitted. If, in fact, they had assumed that the exchange rate increased, it would have been negative.

Mr. Evans: I would tend to disagree with that, because I have seen--

Mr. Morin-Strom: That is what we just heard from the Treasury officials.

Mr. Chairman: Let Mr. Evans have his say.

Mr. Evans: Thank you, Mr. Chairman.

All I have said is that I have not seen a credible study that has been produced that does not show positive effects. I have not seen one that shows negative effects. If you have studies that refute that statement, then I would be more than happy to examine them.

Mr. Morin-Strom: In terms of the impact of free trade, one of the contrasts and one of the concerns has to do with regional development across Canada. I would say that if people compare what Canada has done in terms of its outlying regions, in terms of supporting a decent standard of living, it is much better than what the United States has done. I think if you did comparisons of some of the areas away from the major population centres--Manitoba versus North Dakota, Alberta versus the farther midwest or Vancouver versus Seattle--

If you wanted to take an area that I am more familiar with, northern Ontario versus northern Michigan--in my case Sault Ste. Marie, Ontario, versus Sault Ste. Marie, Michigan--a city like Sault Ste. Marie, Michigan, has had free trade with the United States for 150 years but has had a declining economy in comparison with the community of the Sault, Ontario, which has shown considerable growth over the past 40 or 50 years, quite the reverse of what has happened in the upper peninsula of Michigan.

Under free trade, in a move towards closer economic integration with the United States, are we not going to see a decline of the resource-based areas of our country?

Mr. Evans: No. Indeed, if there is one area which all economic studies indicate will do very well under free trade it is the resource sector.

Mr. Morin-Strom: As exporters?

Mr. Evans: As exporters and as producers for domestic consumption, for domestic manufacturing.

Mr. Morin-Strom: But in fact, the record in the United States is that the resource areas have been used solely for the export of materials and not for the production of goods. They have not generated even secondary industries or other types of operations that we have had in the resource areas of our country.

Mr. Evans: It is true in any country that there are certain sectors of the country that become the manufacturing and commercial centres. Industrial development does not occur evenly across any country that I have ever known of. It does not occur evenly in Japan; it does not occur evenly in the United States, nor in Canada, Germany, France or Britain. It is the natural course of things that commercial developments of certain kinds cluster in certain areas.

What is said in my statement is that from coast to coast the studies I

have seen indicate that British Columbians would benefit from this agreement; Newfoundlanders would benefit from this agreement; Ontarians, Quebecers, Manitobans and Albertans. All across the country there would be positive benefits, in some areas greater than others.

Quite frankly, in the financial services sector, any benefits or gains to be had in that area would tend to be more greatly felt in the financial centres--certainly Toronto and perhaps Montreal and Vancouver--but the overall net benefits would be felt from coast to coast. I think that was the point I was trying to make.

Mr. Morin-Strom: Finally, perhaps I should focus at least one question on your industry. You are representing trust companies of the country. It seems to me that the function of trust companies has something to do with the name, and that is trust, but I do not see anything in your presentation which addresses the issue of whether the people who put their money in your companies, who trust you to care for their savings, in fact will benefit from this.

In particular, I am concerned about the risks, whether this agreement can have any impact on the risks to people who put their funds into trust institutions. Does opening up our financial sector to foreign firms put the people of our country at risk when they are putting their savings into those firms? Or vice versa, when you go out and buy up, as you have suggested here, acquire savings and loan companies in the United States. Of course, we know they have had a much higher rate of bankruptcy in the United States than here. Are you putting at risk the people of this country by opening up this trade agreement instead of maintaining the kinds of controls and regulations we have had on the industry in the past within Canada?

Mr. Evans: Quite the contrary. As I have said, if in fact it is true--and I contend that it is--that free trade is good for economic growth and development in Canada, then the institutions that finance that growth and development with the savings of Canadians are going to be stronger and are going to prosper, and that means benefits for the people who are saving their funds with financial institutions that are healthy.

Now, to get to the question of whether or not institutions are healthy, Ontario has just passed Bill 116, which greatly increases and improves the supervision and regulation of trust companies in this province to ensure that Canadian depositors who deposit their funds in Ontario are well protected. The federal government is bringing down new legislation at this very moment to do exactly the same thing. Quebec has just done the same thing with Bill 74. I would say that the regulation and supervision of the trust industry, the banking industry and the insurance industry--because Ontario is going to bring down some insurance legislation very shortly, I understand--are going to be much better than they have ever been in the past. Certainly in the case of the trust industry they will be.

The point is that we have opportunities to invest in profitable investments which are to the benefit of the shareholders of the trust companies, to the benefit of the savers and to the benefit, obviously, of those people who use the services of the trust industry, because a strong, healthy, well-financed, well-capitalized trust industry, banking industry, insurance industry is there for the use of Canadians in furthering the growth and development of this country, and that is precisely what we would hope for.

Mr. Morin-Strom: Will Canadians who put their funds in foreign

institutions have the same trust that they have in Canadian institutions?

Mr. Evans: I would hope that Canadians would look on Canadian institutions and say: "These are our institutions. We know how they operate, we regulate them here at home and we are more secure in putting our money in a Canadian institution, be it a bank, a trust company or a life insurance company." In my case I prefer trust companies.

Certainly any foreign institution operating in this country has to operate under Canadian rules, and I think if you ask any of the foreign life insurance companies--the Metropolitan Life Insurance Co. for one, the Prudential Life Assurance Co. of England (Canada) for another, any of the schedule B banks that operate in this country, which are the foreign bank subsidiaries--they will tell you that they are supervised and regulated very intensively.

Canadians can be secure in putting their money with those institutions, just as they can be with domestic institutions. What we do outside of this country is going to be regulated not only by our own regulators here but also by the regulators in the countries in which we operate, including the United States.

I would suggest that we have a very good regulatory system under development now. Ontario is ahead of the other provinces and the federal government. But I would certainly not be concerned if I were a Canadian depositor living in Toronto whether my funds were safe in a trust company, a bank or a--well, I will stop with trust companies and banks; I will not go on to other institutions. But certainly I have no problems at the moment.

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Mr. Neumann: To start off with, could you tell us what your attitude is towards the federal deficit?

Mr. Evans: I am not happy with the federal deficit. I was part of the administration that got that deficit started and I think the former Liberal government has to take some responsibility for that deficit. I think it is dangerous and has to be brought under control. Quite frankly, I think it has to be brought under control to a much greater extent than has been achieved by the current government. But I will not try to play partisan politics with it because I think we had a great deal to do with that deficit and I sympathize very greatly with what Mr. Wilson is trying to do.

Mr. Neumann: Removal of tariffs will reduce revenue for the federal government.

Mr. Evans: Oh, only by a marginal amount. The amount of revenue we get now from customs tariffs is very small. If you look in my statement, in 1961, customs tariffs represented about 11 per cent of total exports to the United States. Today it represents 2.5 per cent and it will go to zero over the next 10 years. Customs tariffs are a minuscule part of the total revenue of the federal government.

Mr. Neumann: Would you not agree that removal of the tariffs would contribute to the deficit, even in a marginal way?

Mr. Evans: I have not seen it analysed in its entirety. You have to look at the other side. The overall agreement, if it increases economic growth

by estimates of two, three or four per cent over the next period of time, increases Canadian income.

We lose on the one hand because we are no longer collecting customs tariff revenues over the next 10 years, but at the same time Canadian incomes are increasing faster than they would have otherwise. That means they are paying more in the way of income tax. If they are spending more, they are paying more in the form of domestic sales taxes. I cannot state this econometrically because I have not seen it done, but I would expect that the federal and provincial governments, quite frankly, will come out ahead of the game on this from the point of view of tax revenue.

Mr. Neumann: The reason I raise this is that you made reference in your presentation to the recent Department of Finance report indicating a net gain of 125,000 jobs. I am aware that one of the assumptions they made was that the reduction in tariffs would not be replaced by new taxes, that there would be a loss of revenue to the government.

In his prepared text to us, Mr. Macdonald says, "A reduction in tariffs also serves to release consumer income, which generates new demand, increased economic output, investment and employment." I found it interesting, though I never got a chance to ask him, that he deleted that from his verbal presentation.

I am aware it may be that there is concern in his group about the deficit. I am aware that the chief economist for Ontario, when he appeared before us, said that in their econometric model they did not put that in because they assumed Mr. Wilson would have to make up for the lost revenue by other taxes because of the extreme concern with the deficit.

Would you comment on that? You mentioned that you are not aware of other studies, but would you not think that what assumptions you make can determine quite a different result in these projections?

Mr. Evans: Oh, absolutely. As your honourable colleague mentioned earlier, if you make the proper assumptions, you can get any results out. The question is, are you making reasonable assumptions? As long as you are making reasonable assumptions, you have some grounds for asserting credibility in your analysis.

Mr. Neumann: My point is, if it is 125,000 jobs that are projected, we could get the same economic stimulus by reducing income tax.

Mr. Evans: That is true, but I--

Mr. Neumann: So where is the benefit from the free trade agreement? It is not the benefit from free trade; it is a benefit from our economic stimulus.

Mr. Evans: Perhaps we should be doing both. We should be reducing income taxes and having a free trade agreement and we would have 250,000 jobs from that, as an extension of the analysis you just did. I do not disagree with cutting income tax rates, for example, but what I was saying is that if you project economic benefits, growth and development, and thereby higher incomes for Canadians flowing from the agreement--if we can agree on that for the moment--then, simply because people are making more money, they are going to pay more income tax. That is revenue the federal government or the provincial government would not have had without the agreement.

Because of the agreement, you are going to lose some customs revenue. The question is, is the increase in income tax revenue and sales tax revenue from the expenditure of that additional income that Canadians earn enough to offset the loss in customs revenue? I am saying that customs revenues are a small and very declining proportion of the total tax revenue of governments, and the rising incomes would, in my opinion, offset by more than enough.

The question of the deficit is a whole different question. We are saying now: "Should we be trying to recapture the lost customs revenue in addition to the growth benefit in taxation? Should we be adding to the tax burden to try to maintain that revenue we are losing from customs tariffs in order to help reduce the deficit?"

Mr. Neumann: What is your opinion on that?

Mr. Evans: I think at some point we have to take a good hard look at two things. We have to look at the tax system to see if it is generating sufficient revenue to keep us current with our current expenditures and to contribute something to getting the debt situation under control so our interest payments are not terribly excessive, which they are.

The second thing we have to look at is expenditures. How much can we constrain the expenditures of governments, be they federal, provincial or especially municipal, to bring our expenditures more into line with our ability to pay? I do not know what your opinion is, but I would think that we should all be concerned that our debt is growing as a proportion of gross national product, and as long as that continues to occur, the interest expense to the government is going to increase.

As a former politician to current politicians, that is going to take a bigger and bigger chunk of our revenue, which leaves less and less for us to use to benefit Canadians. That has to be a concern to us because 10 years down the road, if trends continue, there is not going to be a whole lot of the federal or provincial budgets left for programs and current works. It is going to be taken up to a large measure by paying interest on previous debts.

Mr. Neumann: Are you familiar with the Competition Act?

Mr. Evans: Yes. I was a director of research for the Department of Consumer and Corporate Affairs for a number of years.

Mr. Neumann: I am going to describe a scenario for you. An American company decides to put its branch plant on the market in Canada, maybe because of free trade coming along. A Canadian company manufacturing the same product decides to buy the American branch plant. In doing so, with this new acquisition, he will control 75 per cent of the Canadian market. Do you think it is a fair use of the Competition Act to either prohibit that sale or penalize the Canadian company for making this purchase? The Canadian company is trying to develop economies of scale to put it in a position to prepare for the free trade agreement.

Mr. Evans: I think that would be a very difficult call for the government to make. Seventy-five per cent of the domestic market, domestic production, is one thing. If they were to control 75 per cent of all of that particular product consumed in Canada, that is a different story. The scenario you drew for me was a branch plant of an American corporation producing this good or service in Canada and in the United States.

Mr. Neumann: Yes.

Mr. Evans: Now we have a Canadian company going to take over the American operations in Canada.

Mr. Neumann: Yes, buying the branch plant.

Mr. Evans: But it is still exposed to competition from the American plant in the United States.

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Mr. Neumann: Yes, and the Canadian government stepped in and wanted to prohibit that sale.

Mr. Evans: Yes. I would have to look at it from the point of view of the consumer. That is what we would be logically concerned about. Does the consumer have the option of a number of foreign suppliers of the good as well as this one rather substantial Canadian producer? If the Canadian producer has 75 per cent of the market once this is consummated and there are no options for competition to come through either new startups in Canada or foreign competition from offshore, then I would be more concerned than if the situation were that the good could be produced and imported to maintain control over this one rather large and substantial producer in Canada.

Mr. Neumann: All of the presentations so far have been theoretical, trying to project into the future. I, as an MPP, have to deal with the reality that has developed in our community where a Canadian company, which is a Brantford-based company, just laid off 49 people. It has been ordered, via the Competition Act, to divest itself of the production within our community.

Mr. Evans: I would want to see all the details of that particular situation.

Mr. Neumann: Do you think the Competition Act is obsolete in that it refers only to the Canadian market and here we are entering into a North American market?

Mr. Evans: Please do not tell me the Competition Act is obsolete. It was 15 years getting what we got about two years ago. I would hate to see us start all over again.

Mr. Neumann: In the light of the free trade ageement, I mean. Does the free trade agreement not change those rules?

Mr. Evans: I think it does. I think you are right. Many aspects of the Competition Act are going to have to be reviewed in the light of changed circumstances, and that particular decision, I would suggest to you, could very well be changed under a free trade environment. There would not be such great concern in the eyes of the federal government in that the company, even if it had 75 per cent of the Canadian production, would be exposed to greater foreign competition and from the consumers point of view, that would keep that company's actions under control. You might very well have a situation that is the reverse of what has just happened.

Mr. Chairman: I know you have one eye on the clock. Can you take a question from Mr. McCague?

Mr. Evans: Absolutely. I can go until four o'clock.

Mr. McCague: You mentioned that you had not seen any credible studies either for or against free trade.

Mr. Evans: No. I think I said I had not seen any credible economic analysis that had shown negative effects of free trade from the point of view of economic growth or employment. All I had seen were studies that showed positive effects.

Mr. McCague: Whatever it is you have not seen, why is that?

Mr. Evans: Because no studies have been produced that are able to show that the results are negative. All of the studies that have been done--and I hold certain of these organizations in very high regard, Informetrica for one, Environics, Conference Board of Canada, Economic Council of Canada, the Macdonald commission itself--have shown that when we look at the intermediate, five-year period or the long-term, 10-year period, there are positive employment, growth and income effects generated by the free trade agreement.

Mr. McCague: In your opinion, who has done the best study of the "ifs, ands and buts" of free trade?

Mr. Evans: I am impressed with the recent work that has been done by Informetrica and its continuing work and continuing involvement in the question. They are continually reassessing and refining their results, and I am quite impressed with the work they do.

Mr. McCague: Obviously the Liberal Party in Ontario has a different opinion of all this free trade talk than we have. It was interesting that Mr. Ferraro says they are in favour of free trade but they are not in favour of this agreement. I guess that is fair ball if that is the way it is. However, that is not what the average Ontarian thinks about the opinion of the Liberal Party.

Mr. Ferraro: Thank you for showing concern.

Mr. McCague: However, it seems to me that people keep throwing up, as the Liberal Party in Ontario does, and the New Democratic Party, points that the free trade agreement does not guarantee this, it does not guarantee that, it does not say anything about this, it does not say anything about that. Yet Mr. Macdonald, in his presentation and in his report and in his public appearances over a few years now, has been saying that it is in the best long-term interests of all of the people of Canada. I think I am right in that, and I see the dilemma in the Liberal Party in Ontario being a signatory to something that says that, when it is to its political gain to hammer it day in and day out right now.

If a person wanted to get the best handle possible on the longer-term effects of free trade, how would you suggest is the best way to do that?

Mr. Ferraro: Wait 20 years.

Mr. McCague: That is true. That is about your solution to it.

Mr. Evans: There are several studies that have been done, and I mentioned the organizations that have done them: the Economic Council of

Canada study, the Macdonald commission for historic, the Informetrica study, the conference board, and there are others that have done analyses.

I think you have to go back to what Mr. Macdonald said in his report and here today and look at why he has said that. It is the leap of faith statement that--

Mr. McCague: You should use trust.

Mr. Evans: Trust, yes. The underpinnings of that statement are that virtually every occasion on which a free trade or a freer trade or a liberalized trade arrangement has occurred throughout history, it has led to net benefits for the parties involved in that agreement, both sides, multilateral trade agreements--the world is a better place today because of the General Agreement on Tariffs and Trade. If we did not have GATT today, we would be a lot worse off than we are.

There is a substantial body of evidence that would indicate that the Great Depression in the 1930s was at least greatly exacerbated by the Smoot-Hawley tariffs in the United States, which closed down free trade. The other side of that is opening up free trade, and to open up free trade leads to economic benefits for other countries.

That is not to say there are not concerns from other than economic considerations, but I am not here today to talk to you about those. I am to talk to you about economic, and specifically financial services. I can certainly understand some of the concerns being raised from other parts of the country, but what I am saying is that I do not see how they can base any of these concerns on economic considerations. They have to be basing these on other considerations, and those are going to be matters that you, as legislators, are going to have to grapple with on those terms. Certainly on economic terms I cannot see any negative case to be made against the free trade agreement.

Mr. Haggerty: Mr. Evans, you have made some comments here: "We also see new opportunities opening up in the United States market. Some of our firms have or are considering the acquisition of savings and loan companies in order to enter the US mortgage and consumer service markets."

I am sure you are well aware of the number of banks in the United States now that have been forced to close their doors and go into bankruptcy. The numbers are increasing day to day.

"There will also be opportunities to expand our growing personal financial planning and management operations. In the business area, we see opportunities in real estate development and construction financing; areas where we have significant expertise and experience."

That is the positive side. But is there not a negative side to this too, that capital will be flowing out of this country in the time that we need more money spent on housing in Ontario and throughout Canada, one of the heaviest expenditures a consumer couple will make in a lifetime, and the furniture that goes with it?

More jobs will be created by more development in housing in Ontario and throughout Canada. We cannot do that if the financial money that is generated through the trust companies from Canadians will leave this country to go to build houses for marketing down in the States or commercial buildings and

development. Is that not the negative side, that jobs will be lost if this capital leaves?

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Mr. Evans: No, I do not think so. If it was a one-way flow, yes, but it is not a one-way flow. What people say we should fear is that the Americans are going to come across the border with their big financial institutions, their capital and their power and are going to blow away Canadian trust companies.

Mr. Haggerty: Buy the Canadian trust companies, take their capital and go back to the States with it.

Mr. Evans: The fact of the matter is that we have heard this before and when they have come up and tried it, a good many of them have turned around with their tails between their legs and gone back home because we are just not as easy to push around as people might have thought.

On the other side, Canadian companies have been investing at home and abroad for all time. I see nothing wrong with Canadian companies finding opportunities in the United States that are going to generate growth for the companies and employment here in Canada in the management centres of those companies.

Mr. Haggerty: But the management will be in the States because you are going to be buying into the financial institutions there.

Mr. Evans: Look at a company--I will give you an example not dealing with my own industry: Great-West Life Assurance Co. Great-West Life is located in Winnipeg, and I will guarantee you that anyone in Winnipeg will say that if Great-West Life leaves, it is going to leave a big dent in Winnipeg and that Great-West's growth has meant a great deal to Winnipeg.

Great-West Life is now bigger in the United States than it is in Canada. It has a huge operation in Denver, but the profits and benefits from Great-West's operation offshore all flow back to Great-West Life in Canada. They are used here for financing housing, for providing better life insurance coverage for Canadians, and so on.

Investment, whether it takes place in Canada or offshore, is going to generate benefits for the company doing the investing. If it is a Canadian company, that money flows back into Canada. If there are profitable outlets for that investment here in Canada, then it will take place here in Canada; otherwise, it will go offshore.

As you say, Canadians need housing. That need is expressed in the form of a demand for new housing and it is being met. Housing starts--

Mr. Haggerty: No, it is not being met. It is not being met in the United States either.

Mr. Evans: You will never satiate the entire demand for housing, but what I am saying is that housing starts this year in Canada are higher than they have been for years.

Mr. Haggerty: So is the price.

Mr. Evans: So is the price. Now we get into the whole question of whether it is housing for those who need housing the most: low-income, affordable housing. That is a whole different story, but if you are talking about building houses, Canadians are building houses this year faster than they have built them for a very long time.

Mr. Haggerty: I am just talking about affordable housing.

Mr. Evans: I agree with you that the particular area of need you have focused on is not being met by the private sector to the extent that perhaps it could. But that is a very complex problem, as you well know, from dealing with it here in the Legislature. I know you have gone over that area very many times in your deliberations.

Mr. Chairman: Thank you very much, Mr. Haggerty, and thank you, Mr. Evans. I appreciate your coming here. We will certainly peruse your thoughts carefully as we deliberate on this subject and we wish you a good trip back home.

Mr. Evans: Thank you very much. I certainly hope that after your deliberations come out, you can see your way clear, as Mr. Macdonald said, to reconsider the resolution that was passed in the Legislature.

Mr. Morin-Strom:--might change political parties.

Mr. Chairman: Mr. Macdonald always reminds us he did so on wage and price controls, but maybe at his peril.

Mr. Evans: Yes, it happens.

Thank you again, Mr. Chairman, and members of the committee.

Mr. Chairman: I have a couple of housekeeping matters. First of all, I have to inform the committee, unfortunately, that Mr. Scott's mother apparently has passed away and, obviously, he will not be able to appear before the committee tomorrow at one o'clock as was scheduled. We will have to reschedule that for another time. The other witnesses scheduled for tomorrow will still be appearing, and we still will have a very busy day. There are five witnesses to appear, starting at 10 a.m. with the Ontario Grape Growers' Marketing Board.

The other matter has to do with our travel situation. Mrs. Oberstar, who did such an excellent job of preparing our trip last year, is busy the week of March 7 and will not be able to take us on that week. Another organization has booked her. Alternatively, it is suggested that we could look at the week of March 21. Another alternative is conceivably to ask for permission to sit the week of March 28, which is the week before Easter. The committee has not asked for permission to sit that week.

We have--and I think it has been distributed to you--a list of organizations that wish to speak to the committee, most of them from the Toronto area. The chair feels it is important that we do some travelling in Ontario. Perhaps I will just let this sit at that, unless someone wants to make some comment.

I do not have any further discussion to present to you, except that you may wish to give us permission, if it is necessary, to change the date of our planned trip to Washington. As opposed to March 7, is it all right if we

arrange it for March 21? Frankly, my own view is that this woman does perform some very good work and it would be a shame not to have her assistance if we can get it.

Mr. Neumann: I am new at this, but I think that the primary consideration should be the timing of the trip with respect to our impact in going down there. If it makes no difference in the two weeks you are suggesting, perhaps we should make the change, but if we are losing something by not going the week of March 7, then perhaps it is worth doing anyway.

Mr. Chairman: I agree with you. I have not talked to her since she apparently booked this other group but I get the impression that, generally speaking, March is a good time. There is no particular window of opportunity that is open one particular week that we know of.

I know it was the case that she was able to be quite successful last time, in part because we had the corn countervail finding in this country and in part because the President happened to be in Ottawa. Incidents of that nature do not seem to be on the horizon at the moment, but if something like that were to occur, perhaps we should discuss that a little bit with her. I am sure she would give us good advice in that regard.

Maybe we would be wise to stick to March 7 but, otherwise, if it is all right, we will--

Mr. McCague: I move that you pursue the week of March 21, and if it looks equally beneficial, that it be that week.

Mr. Chairman: OK.

Mr. Beer: Seconded.

Mr. Chairman: Any discussion? All in favour?

Motion agreed to.

Mr. Chairman: The arrangements are going ahead--yes, Mr. McCague?

Mr. McCague: On the second point that you would like to raise, which I think each party is familiar with, is there not some way of determining the answer to your dilemma between now and tomorrow morning?

Mr. Chairman: All right. Is that what I said to Mr. Morin-Strom? Why don't we do that? Why doesn't each of us undertake to talk to our House leaders between now and tomorrow morning? Then if there is a problem, we will discuss it.

Is there any other business to be discussed?

Mr. Neumann: I wanted to table with you and the committee some documents relating to the Trailmobile situation in our community. I should point out that while 70 per cent of the workers live in my riding, the plant itself is located in Mr. Nixon's riding of Brant-Haldimand, just outside the city boundaries.

I have here a letter which was sent to the federal minister of the Department of Consumer and Corporate Affairs, signed by myself, Mr. Nixon, Mr. Blackburn, our MP, the warden of the county, the reeve of the township and the

mayor of the city, regarding the situation. I drew it to your attention last week, and we now have the first layoff: "Tractor-Trailer Factory Lays Off 49." It is felt it is the first of 300. We have a concern about how they magically picked 49, and that is something we are looking into. But there is a definite relationship between this and the free trade agreement and the Competition Act.

I also have with me a document from Consumer and Corporate Affairs, which outlines the reasoning for the agreement between Consumer and Corporate Affairs and Trailmobile that forces them to divest themselves of the Brantford operation and how they are to go about doing it. It too relates directly to the free trade agreement in this document.

I thought it would be interesting for our researchers to have this, and in addition to that, a number of newspaper clippings and a letter to Bob Rae, leader of the official opposition, from the local Canadian Auto Workers representatives. I think you might find all of this interesting to read.

Mr. Chairman: Indeed, I am sure the whole committee will find that very interesting, Mr. Neumann. I appreciate your tabling it. We will have copies made for all members of the committee.

You indicated it might be the first layoff directly attributable to free trade. I do not know whether you can say that. I did hear, a couple of hours ago, that there is a furniture factory in Cornwall that has just announced it is closing, and it may try to claim the same. I think about 300 are to be laid off there.

Mr. Neumann: I do not think they care whether they are first or second. It is the impact on their families that is the--

Mr. Chairman: That is correct. Any other business? Mr. McCague, do you have any? No. It is interesting. I think it would be very valuable for the committee if we did some tabling of situations like that and also situations, if they come forth, where there are new vistas being opened up for that reason.

Mr. McCague: I can give you one of those, although it is not in the riding of the honourable member who tabled the information or the Treasurer's.

Mr. Chairman: We would be interested in hearing about it.

Mr. McCague: It is in my riding.

Mr. Chairman: Perhaps you can give us some documentation on that.

Thank you very much, until tomorrow morning at 10 o'clock sharp.

The committee adjourned at 4:12 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

TUESDAY, JANUARY 26, 1988

Morning Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Beer, Charles (York North L) for Mr. J. B. Nixon

Fleet, David (High Park-Swansea L) for Mr. Ferraro

McClelland, Carman (Brampton North L) for Mr. Kozyra

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witness:

Individual Presentation:

Wonnacott, Dr. Ronald, Professor, Department of Economics, University of
Western Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, January 26, 1988

The committee met at 10:06 a.m. in room 151.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: The Ontario Grape Growers' Marketing Board chairman, Mr. Nash, was coming here from Vineland. I am told there are several inches of snow in the peninsula; it is falling. The Queen Elizabeth Way has been closed and opened; there have been accidents. That may be the reason he is not here yet. Unless somebody has something he wishes to raise, and Mr. Sterling is not here to raise anything, we will have a short adjournment.

The committee recessed at 10:07 a.m.

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Mr. Chairman: To bring our meeting back to order, the Ontario Grape Growers' Marketing Board has not appeared, and we will have to reschedule its appearance for a later time.

In the meantime, Professor Ronald Wonnacott is here from the economic department of the University of Western Ontario and has kindly conceded to start his presentation a little early.

Professor Wonnacott and his brother are two well-known proponents of free trade between Canada and the United States. They have been arguing very persuasively for it for some time. Professor Wonnacott and I were just recalling his appearance before the select committee on economic affairs. He was one of our very first witnesses, talking at that time, of course, about some of the very basic issues.

We are very interested, sir, in what you have to say about the text of the actual agreement now that you have seen it, and we appreciate your coming and being with us today. Hopefully, after your presentation, you will entertain some questions.

Dr. Wonnacott: I would be happy to. Thank you very much, Mr. Chairman.

DR. RONALD WONNACOTT

Dr. Wonnacott: I would like to talk about the agreement, the effects of the agreement and also the specific issues it raises for Ontario. I think it is particularly interesting from an Ontario perspective. Ontario government officials have rightly expressed the hope that the next election, which is going to have a free trade component regardless, it seems to me, does not become a regionally divisive one. I would like to strongly echo that hope, while at the same time expressing my great concern that, as things now stand, there is an increasing risk that this may occur, with politicians in other provinces being tempted to "run against Ontario."

There are a number of questions that can be raised in other provinces about Ontario's position which may be difficult to answer. I would like to draw your attention to those today. In order to do so, I would like to review briefly the three broad effects of the Canada-US free trade agreement: first, in reducing Canadian trade barriers; second, in reducing US trade barriers--these two effects, of course, will tend to increase our trade with the United States; the third effect being to prevent our existing trade from declining or, more precisely, reduce the risk that our present exports to the US will be damaged by US protection. These three effects are quite different. It is important to distinguish between them because they have different effects on the different Canadian regions.

First, lowering Canadian tariffs: I am going to use "tariffs" as a shorthand for trade barriers. With US imports coming into Canada duty-free, Canadians will have access to a greater variety of goods at a lower price, with this lower price applying to both imports and import-competing goods produced in Canada. That will be a benefit right across Canada to Canadians in all regions. The increased competition from imports, however, will put downward pressure on manufacturing output and employment in Ontario and Quebec. Let me emphasize again that I am talking now about removing just the Canadian tariff. The result of this will be an unambiguous benefit to other provinces but have pros and cons for Ontario and Quebec. Consumers in these provinces benefit, but manufacturers come under pressure.

If you concentrate your attention only on this first effect, you can become quite concerned in Ontario because, on balance, it seems not unreasonable to conclude that Ontario and Quebec could well be damaged by the removal of Canadian protection only. That is the flip side of the proposition that the Canadian tariff has historically benefited Ontario and Quebec by encouraging manufacturing here, but this has been at the expense of other provinces, whose individuals and firms have had to pay a higher price for goods because the Canadian tariff has prevented their purchase from a lower-cost US source.

The second effect, reducing US trade barriers, tends to encourage output and employment in all regions in Canada, but in particular in Ontario, for two reasons. First, Ontario has the existing industrial infrastructure to take advantage of easier access to the US market; second, Ontario has a better location to service the US market than other Canadian provinces and, indeed, a better location for servicing the US market than many US states. Toronto is located closer to the centre of the US industrial heartland and in a better location to service that US market than, for example, Minneapolis-St. Paul, which has, none the less, historically done very well in competition with other US cities in the US free trade area.

The third effect is that of avoiding some of the losses from US protection. Preventing damage to present export sales seems to be a major incentive for Canadian business executives, the majority of whom are now in support of this agreement. The regional effect of this would be much the same as for the previous point. Although all Canadian provinces will benefit, Ontario would be one of the largest beneficiaries because of our present relatively heavy dependence on exports of manufactured goods to the United States.

When one then considers all these effects, not only is Ontario estimated to have a net benefit but it has as much to gain from this agreement as any other province, perhaps more. This has been implied by a number of studies,

which are cited. But the problem for Ontario is that there is this element of risk. Whereas for other provinces you look at these various effects and you see unambiguous pluses, you do have that element of risk for Ontario manufacturing, which will come under more pressure from US competition.

In other words, in rationalizing to service the North American market, Ontario would face both a carrot and a stick, the carrot being the more favourable access to the US market and the stick being the increased competition from US imports in manufactured goods. That stick would then be putting pressure on Ontario industry to cut costs by scaling up for the larger North American market.

It is true that the noncentral Canadian provinces would get the same carrot, but it is a much smaller one. They would also get very little in the way of stick, because they do not have the same manufacturing establishment as Ontario. From their point of view, there may be less expected gain from this agreement, but they do not see any negatives and they tend to favour it unambiguously, with a couple of exceptions. The problem for Ontario is that its greater benefits are tempered with an element of risk.

It seems to me that there are several reasons why that risk should be kept in perspective. There would be adjustments necessary here, as resources would be moving from import-competing to export industries. This adjustment would be taking place, and it appears the major adjustment here might be for the labour force. Business is not predicting the kind of adjustment that the labour force is predicting. This adjustment would be taking place in labour markets that are already adjusting to far more severe shocks. At present, an estimated four per cent of the Canadian labour force is already separated from its jobs every month on average as a result of a multitude of influences such as technological change, shifts in domestic demand and supply and imports from the Far East and other third countries.

In this sort of world, the adjustment to free trade is unlikely to be as severe as is often assumed. A 10-year phase-out of Canadian tariffs--and the industries that really feel they need a 10-year phase-out will be getting it--means a change in their competitive international position by one per cent to two per cent at most a year, as a tariff of, at most, 10 per cent to 20 per cent is phased out. That change would be predictable and can be planned for in advance. This would be occurring in a world in which movements in the exchange rate sometimes change our competitive position by 10 per cent to 20 per cent or more in a few months in a way that cannot be predicted and planned for.

We have other much bigger and more substantial shocks and adjustments that will be required and we would then be adding a layer of further adjustment in moving into a free trade agreement with the United States. A layer of further adjustment added to that would, however, be a layer of further adjustment in a labour market in which job opportunities are likely to be expanding because the pressure on Canadian manufacturing would at least be offset by increased opportunities in the US market, whereas if we do not have this agreement, then we have the problem with future US protection for which there are no compensating job opportunities in sight being created.

Let me then turn to what seem to be the difficult questions that you here in Queen's Park may have to address in the next few years. First of all, is Ontario opposing this agreement in order to hang on to the Canadian tariff that allows it to maintain a protected industry at the expense of the noncentral provinces which have to pay higher prices for manufactured goods?

That is a traditional question, which has always been asked of Ontario. It is likely to become a question that is asked even more pointedly in the future.

Ontario's traditional answer to this is that Canada has a system of fiscal transfers in which Ontario taxpayers have played a prominent role in compensating many of the noncentral provinces. That is a good answer. It does, however, have a couple of problems. First of all, this is not true just in Canada. It is true everywhere. One observes that those who receive grants are happy to take them, but they do not necessarily waste much affection on those who finance them. To what degree should the recipients view fiscal grants as an adequate substitute for greater export opportunities in the US market? That will be the question that is asked.

The second problem with this compensating system is that there is a lot of waste involved. Whenever \$1 million is transferred from one group to another in Canada, it is done in a leaky bucket. A certain amount of the transfer leaks out in transit. To illustrate, a transfer means higher taxes, and if the public responds by working less, there is a deadweight loss because less is produced. Canada may suffer if some of the brightest Canadians, in response to heavy taxation, move south. So there is always some problem here with losses when you are raising funds for a transfer.

Just as the compensating fiscal transfers involve waste, so too does the Canadian tariff. Think about it this way: The higher price that westerners have to pay for Ontario manufacturers because of the Canadian tariff does not all go as a benefit to Ontario and Quebec. Instead, much of it is dissipated in the inefficiency of small-scale production here in the central provinces and high transportation costs. As an example of high transportation costs, under free trade, Ontario would sell less to Vancouver and Vancouver would buy from Seattle instead. At the same time, Ontario would sell more to Chicago and Detroit. Short hauls would replace long hauls and transport costs would be reduced.

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In Canada, there is no question that we need an effective east-west transport and communications system. What is not clear is that beefing it up with a lot of inefficient, costly shipments of products adds cement to Confederation, especially when we take into account the attitude this generates in those distant provinces which may be paying the freight.

As a further illustration, suppose we had no auto pact, with its large trade with the United States. Instead, suppose that, as before the pact, most cars sold in Canada were produced in Canada. The result would be inefficient, small-scale production of the kind we faced before 1965 and excessive transport costs as Ontario producers shipped their cars to Vancouver rather than Ohio and as Vancouver buyers purchased from Ontario rather than Seattle. With no auto pact, short hauls would be replaced by long hauls. There would be far more east-west trade, but I doubt that an end to the auto pact would cement Confederation in increasing east-west trade, since those in the west would be paying higher transport costs for cars which would be less efficiently built.

The second set of difficult questions is this: Why can Ontario not recognize that it is potentially one of the largest beneficiaries from free trade? Why is it focusing so heavily on the effects of removing the Canadian tariff, without taking adequate account of the favourable effects of a

reduction in US trade restrictions? Would not a recognition of the benefits of increased access to the US market allow Ontario quietly and gracefully to shed its role of prospering at the expense of the rest of Canada and thus eliminate a major source of regional division?

This brings us to a question we are already hearing: Why should Ontario, which has benefited so much from the open access to the US market under the auto pact, prevent other provinces from acquiring better access to the US market? The standard reply has been, first, that the auto pact is not free trade and, second, that it would itself be gutted by the new free trade agreement.

On the first issue, the auto pact is a uniquely constructed combination of free trade, which has made it possible to increase efficiency, productivity and income--those cars cross the border without duties or tariffs--along with protectionist devices, so-called safeguards, designed to protect Canadian, but not US, production. It is as misleading to say it is not a free trade agreement as it is to say that it is not a protective agreement. In fact, it has elements of both and it cannot be understood without recognizing elements of both.

It is not entirely clear how much protection the auto safeguards do provide. But for what they are worth, they have not been gutted by the new free trade agreement. While it is true that one of the two safeguards will disappear, as the Canadian tariff on auto imports from the United States is removed under this agreement--and this is what led to the charge of gutting--the Canadian tariff on auto imports from third countries will remain as an incentive for the auto firms to achieve their safeguard levels of production in Canada. When they do achieve these safeguard levels, they can avoid this tariff and thus save about \$300 million a year.

Indeed, the new free trade agreement with the United States not only leaves existing auto protection in place, it strengthens it because of the redefinition of origin requirements that requires auto producers to use more North American content. Moreover, the new agreement stabilizes an auto trade that was otherwise becoming very unstable, in large part because of impending overcapacity and the Canadian so-called duty remission schemes. These will be ended. Without this agreement, the US would be essentially certain to take unilateral action on our auto trade. It is not clear how far into present auto trade and investment, and into the auto pact itself, such unilateral US action might reach, with very serious damage to Ontario's auto industry. The North American auto companies are in favour of this agreement, and it is increasingly difficult to argue that the auto workers would be better off without it.

An area of the agreement that has most concerned many critics is our commitment not to restore policies like the Foreign Investment Review Agency and the national energy program. We still can maintain controls over foreign investment and retain our rights over Canadian energy resources, but we are committed to limiting government interference in the marketplace in these areas in the future, just as our General Agreement on Tariffs and Trade commitments and the free trade agreement itself bind future Canadian governments from raising tariffs. These sort of bindings are not unusual in an international agreement.

This has led to the question: Is it reasonable for Ontario, in opposing the agreement, to try to preserve the right to increase restrictions on foreign investment in the rest of Canada when it already has so much itself?

You have already heard this one before, with flowery references to Oshawa, and I am not going to elaborate on it, but let me suggest the energy variant you may hear, and that is this, the question Albertans may raise on the energy issue: Is it reasonable for Ontario to use the tariff to charge more than the world price for the products it sells to Alberta while reserving the right, through a resurrection of the national energy policy, to buy Alberta's product--oil--at less than the world price, that is, at less than what it is worth?

It must be emphasized that the national energy policy was a far more complicated set of policies and issues than this, but it is important, it seems to me, for Ontarians concerned with regional divisions to understand how it is viewed by Albertans.

Finally, let me say, with great respect, that with questions like these being raised elsewhere in the country, the Premier of Ontario has a problem. If he honestly believes that this agreement is bad for Canada, should he not, as a Canadian, be able to express his opposition? Why should he be precluded from doing so by the historical role of Ontario in Confederation?

It seems to me that the solution to this dilemma is to go back and re-examine the agreement. It is true that he was greatly disappointed, and understandably so, because it failed to satisfy the unrealistic conditions that both he and the Prime Minister had set out. While in some areas, such as tariff elimination, it takes us almost all the distance we want to go, in the area of dispute settlement it takes us only part of the way. But that is not the question.

Instead, the relevant issue is: How would this agreement compare to the alternative, namely, a world in which this agreement does not exist? To answer that question, the question that should be addressed, it seems to me, is whether he would tear up the agreement if he were Prime Minister and it was already in effect.

Would he be willing to bring back the high US tariffs on petrochemicals; eliminate the dispute settlement mechanism and go back to facing unilateral US action, with our defence then being the slow US court process or a GATT mechanism that is weaker and slower, with justice delayed being justice denied; give up our preferential access to the US market, with our exemption in some cases from US safeguard action taken against other countries; expose the Canadian auto industry to unilateral and very unpredictable action by the US; terminate the commitment that both countries have to try to reduce antidumping and countervail abuses over the next five to seven years; and leave the Canadian economy more exposed to future changes in US trade laws that would damage Canadian exports?

As the debate continues, it seems to me that the public will increasingly come to understand that opponents of the agreement have often overstated their criticisms. The agreement does not give the US the free access to our resources that is sometimes suggested, nor does it put Canada up for sale, since restrictions on foreign investment are relaxed but far from eliminated. In the areas of culture and sovereignty, Canadian interests have not, in my view, been jeopardized, on balance.

At the same time, the public will also come to understand that the Ontario government's present position in criticizing this agreement has foundation and that the benefits of this agreement have in some cases been

overstated. For example, although this agreement gives us better access to the US market, it does not give us the completely secure access that is sometimes claimed. But the public will also see that Ontario is failing to address the relevant point. It is not a question of whether the agreement is perfect--it is not--instead, the question is, "Would it be better than the alternative?"

I really do appreciate the opportunity to speak before you and speak frankly. I hope this will generate some discussion and some debate. I think it is very important in this provincial setting for us to consider this question of seeing ourselves as others see us, and I have tried to put that to you.

Mr. Chairman: Thank you very much. You have been frank and you have certainly sparked some interest, I think. Some of the questions you put, of course, are hypothetical, to say the least.

Mr. Haggerty: I was looking at page 8 of your comments. You relate the cost of shipping consumer products to the western provinces from, you might say, the industrial base of central Canada, Ontario, and you make comments about cars.

I understand in the industry, if I buy a car--and I do buy a car--I have to pay the same freight rate on that car from Oshawa to Fort Erie, Ontario, as what they what do out to the western provinces. It is one special rate. In a sense, we could say that any car buyer who buys a car in Ontario is subsidizing the freight rates to get the vehicle out--

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Dr. Wonnacott: I am sorry. This is halfway down page 8, "paying higher transport costs for cars."

Mr. Haggerty: Yes.

Dr. Wonnacott: That may well be the case. I think there is a general tendency for higher prices to be paid.

Mr. Haggerty: That is the markup by the dealer, though. Really, it is not.

Dr. Wonnacott: You may be quite correct in automobiles. We are talking about a hypothetical case in which there is no auto pact, so we do not know how prices would occur. I am thinking more in terms of products in general where you might have a refrigerator, as an illustration, that could be bought in the United States for \$1,000. You have a 10 per cent tariff. That means that Canadians out west who want to buy that refrigerator would be paying \$1,100 for it.

They might be able to buy it from Ontario for, say, \$1,080. Without the Canadian tariff, they would not be buying it from Ontario. If we are only looking at the Canadian tariff, you would not have that manufactured in Ontario. The problem is that this \$80 of higher price paid by those in the west would not all go as a benefit to Ontario. Regardless of who is paying the actual freight, some of it would be spent on wastage in terms of freight costs. Some of it would be spent in terms of less efficient production in Ontario under the old pricing system.

Mr. Haggerty: In the movement of grain too--I hope I am correct in this--there is assistance given for the transportation of grain to the western seaboard, you might say.

Dr. Wonnacott: Yes. Traditionally, you have had the Crow rates, which were another form of this transfer that I referred to. It was not just a fiscal transfer; it was a subsidy in terms of freight rates. As I understand it, that has now been replaced by other forms of subsidy, but there are still those subsidies.

Mr. Haggerty: That is right. So they are not moving the grain east to Fort William. The movement of grain in the Great Lakes basin has dropped considerably for that reason, because of the subsidy given by the federal government to offset the costs of transportation of wheat and grains to the western elevators and ports.

The other area you are looking at and the matter you have touched on is energy. Really, when you look at it, there is a two-price system here in Canada, in particular as it reflects on the economy of Ontario. I understand that Union Gas now can purchase gas from the Michigan pipeline cheaper than it can get it off the TransCanada pipeline and really, they say, it is Canadian gas.

For example, industry in Ontario can go directly to the wellhead and to the industry out there and purchase gas cheaper, and it is given to them cheaper, which is a benefit to Ontario, in a sense. They can buy it cheaper directly from the wellhead than they can from the TransCanada pipeline; yet the consumers in Ontario are paying a pretty hefty freight rate for the gas for heating their homes.

If you look at the world price of oil today, probably Petrocan here in Ontario could be buying oil from tankers from the Middle East cheaper than it can buy the raw oil product from Alberta or from the oil-producing provinces. When you look at it, you are saying there is a benefit here to Ontario, but we have to pay a price for it too. We are paying a higher price than perhaps we should be and it is a benefit to our Canadian or sister provinces out there.

Dr. Wonnacott: I cannot speak to exactly what is happening today, to be quite honest with you, but I do know that in the past, before 1974, when the problem was to sell Alberta oil rather than to withhold its sale and to conserve its sale, it was very difficult to sell it in the United States because of US import restrictions. At that point, that is without question. You are absolutely correct. At that point, Ontario did subsidize the Alberta oil industry.

Mr. Haggerty: There is no gasoline tax in Alberta or any of the provinces that I am aware of. In Alberta, I know that there is no gasoline tax, as there is here. One of the reasons is that we have to pay for our roads here in Ontario. That puts another cost on transportation. When you look at it, there is no provincial sales tax out there on gasoline or petrol fuels. There is a break given to them out there, but we have to pay for it here. We pick it up on the sales tax here.

Dr. Wonnacott: I put that question and I emphasized as I was putting that question about energy, that the national energy policy was far more complicated than that suggestion. You will see it in my text, and I want to emphasize that again. The national energy policy did a number of things; for

example, transferring income from American firms operating in Canada, which received a lower price because of the national energy policy's lower domestic price. That was transferred to Canadian oil users in the rest of Canada, in Ontario and other parts of Canada.

Mr. Chairman: Professor Wonnacott, could you perhaps sit closer to your microphone so Hansard can pick up your voice?

Dr. Wonnacott: Yes. From that point of view, the national energy policy had an effect which was beneficial to Canada. There is an answer to this question. The national energy policy is not that simple, and a return to something like the national energy policy would have not as clearly damaging effects to Alberta at the expense of Ontario as the question suggests. All I am saying is, that is the question it seems to me you are going to address.

In terms of the national energy policy, it did transfer income from large American firms to Canadian oil users. That was of benefit to Canada, but it also did other things. Again, you can continue the argument. On the other side, it had a back-in provision whereby the federal government backed in and took an equity share of the oil company.

Mr. Haggerty: It pumped millions of dollars of Canadian taxpayers' money into the industry out there.

Dr. Wonnacott: That is right. We can sort of take each of these arguments one step at a time.

It backed in on the equity of the oil companies and this had a very damaging effect on foreign investment in Canada, not only in oil but also in other areas. The Canadian answer to that was, why should we not get an equity share in the industry when we have subsidized it so heavily? That is the point you are making.

Mr. Haggerty: That is right.

Dr. Wonnacott: Again, it is accurate enough but there is a difficulty with that. If you provide an incentive for foreign firms to come into the country, they come in, they are in a risky business like oil and they fail--in other words, if it is tails they lose. If they succeed, then ex post facto the Canadian government says: "We are going to take a share of their equity. We are going to recapture our subsidy." You can see that is going to be damaging to foreign investment in Canada.

It is very difficult to provide a subsidy incentive for firms to come into the country. They may marginally say, "Well, it is just barely worth our while to come in given this incentive," and then five years down the road or whatever you say, "Now I am going to recapture this subsidy." They say: "The game has changed. Would I want to do this again?" There is a problem there.

What I am saying, I guess, is that the points you make are absolutely correct. You get involved. When you talk about the national energy policy, you get involved in a kind of debate that just goes on and on with Canadian benefits--but; other Canadian benefits--but, and so on. That is why I say there is no question that the national energy policy was far more complicated than that question suggests.

Mr. Haggerty: The next question comes as we look at the free trade agreement. At present, we have in the agreement that the Americans will have access to our energy fields, perhaps in the western provinces, the Mackenzie district or the Canadian Arctic islands that are supposed to be rich with natural gas and oil. They will have access or a share of the production of those fields. The question is, what are they willing to pay for this? Are we again, as taxpayers, going to be heavily subsidizing the industry out there? Then we look at, say, Ontario. What benefit is there for us in it? What secured supply do we have in Ontario?

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Dr. Wonnacott: I think this has been an area in which there has been a lot of confusion. You touch on the clarification of this. You are talking about proportional access--

Mr. Haggerty: Proportional.

Dr. Wonnacott: You are not talking about free access to our resources, but proportional access.

If we have been selling 20 per cent of our oil or whatever to the US in the past, our export of oil can be restricted or the production of oil can be restricted by the provincial governments concerned. But if that takes place, Canadians must share the shortage with the Americans, who have been buying oil from us; that is, we would still be exporting the same percentage.

Mr. Haggerty: Or we would have to go into heavier investment. This is an unrenewable resource. As these wells deplete, and they do deplete over the years, if you say, "We have an arrangement with our American counterparts; we are supposed to give them so many million BTUs a year in energy, but we cannot live up to that because the wells are depleting their production," the next thing you know, we are going to have to get into heavy investment. Does that say the Americans will come in and help finance further exploration or finance the pipelines from the Arctic islands down or from the Arctic basin down?

Dr. Wonnacott: Would we want to object if the Americans wanted to assist in that financing? It is not clear to me that we would.

Mr. Haggerty: We do not know what is really in the agreement. That is one of the reasons the Liberal Party of Ontario has some reservations. No doubt about it, there would be some cost put to the taxpayers of this province, the consumers here, saying, "Now you have to go ahead and pay higher costs for your gasoline."

I live close to the American border and, even with the exchange on the American dollar as high as it is, you can buy gasoline cheaper there than you can in Ontario. Of course, I know they are going to say it is taxes, but again, that is generating revenue. Out of the taxes on that, that goes into a kitty, transfer payments from one province to another, offsetting some of their shortcomings, you might say, in sharing the wealth of Canada.

Dr. Wonnacott: Let me say about this access that the overriding requirement on Canadian sharing is the commitment we have to the International Energy Agency. The government recognizes that this is the overriding requirement. Under that IEA agreement, Canada is committed to sharing its oil

in a time of crisis, possibly with countries which have never bought oil from us in the past.

Mr. Chairman: What you have said on page 11 seems to be somewhat different from what you are saying now. You said on page 11 that we retain our rights over Canadian energy resources. You are suggesting that section 9 of the trade agreement does not give away anything. You say, "We are committed to limiting government interference in the marketplace in these areas in the future, just as our GATT commitments and the free trade agreement itself bind future Canadian governments." Do we have any GATT commitments that control our energy?

Dr. Wonnacott: There is a GATT commitment on energy as well, but the commitment that would be of particular interest to you, it seems to me, is the International Energy Agency commitment, which is a commitment to share Canadian oil. That is not limited to a proportional commitment to those who have bought from us, but could develop into a commitment requirement that we share with countries which have not been buying from us in the past. For me, as a Canadian, that is of much more concern.

Mr. Chairman: Is that a pricing commitment?

Dr. Wonnacott: That is a commitment to share supplies in a period of short supply.

There is another problem with the IEA commitment, that is, that the definition of short supply is taken by the participants in the IEA agreement, whereas the definition of short supply, as I understand it, in this free trade agreement is determined by each of the two countries concerned; that is, we can at any time determine that our oil is in short supply, we can define it as being in short supply and then we can limit the export of it or the production of it, but only provided we maintain this proportional commitment to the US.

Mr. Haggerty: That was my next question. It has been answered now. Let some other members--

Mr. Chairman: OK. I have Mr. Beer, Mr. Morin-Strom, Mr. Mackenzie and Mr. Neumann.

Mr. Beer: In reading your paper and listening to your comments, would it be fair to say that you feel there has been a lot of rhetoric on both sides and that in point of fact the agreement is neither as great nor as bad as different proponents would suggest? But you are saying, on balance, you think this is a worthwhile step to take, that the risks are worth taking?

I guess there are a couple of things that have come up from the perspective of Ontario. I think the way your worded those questions is very valid and I think they are ones that have to be answered, or we have to try to answer them. I would like to focus on just two questions.

One is a concern for many with a free trade agreement. Why would the various American companies that have branch plants here maintain those rather than simply, as they run down à la Firestone, ship their production elsewhere? The argument, I suppose, is that they face more political pressure. It may be that, on the economic scale, it makes sense to have a firm in Tillsonburg or Woodstock or wherever, but there may be pressures to build the plants in the United States.

You, I would take it, feel there are some advantages that we have in this province, geography being but one. Do you feel, though, that there is an implicit problem for us with those kinds of companies? How is it that we are able to offset those pressures to move production south of the border? What are the key elements, in your view, that would make a company say, "No, we are going to stay put where we are?"

Dr. Wonnacott: In the short run, the fact it has plants here. But that is not very reassuring in the long run. You are talking about a labour force that is of high quality and about an exchange rate and, implicitly then, a labour cost that is lower. I think this is a very interesting concern. I personally would not come before you and say, "This is going to have no effect on US foreign investment in Canada." I believe it will have an effect.

There has been a lot of validity in the argument that, historically, a lot of US investment has come here in order to jump the Canadian tariff. You take away that Canadian tariff and that incentive disappears. That US investment that has been jumping the Canadian tariff to get into the Canadian market has come in the form of--what is it they used to say?--the miniature replica branch plants in Canada that were very small-scale and inefficient and so on. Some of that kind of investment in Canada will continue, but that will be phased out. I think that is going to be gone in 10 or 15 years, if we get this agreement, because there will no longer be the incentive for it.

The question is, what will replace it? The answer is that that kind of inefficient US investment in Canada will be replaced by a more efficient US investment in Canada. In that case, the adjustment may be a fairly simple one. It would be a company like 3M Canada Inc. or whatever simply switching over from its focus on the Canadian market to a North American market through product mandates or whatever. You would get an efficient US plant in Canada. Auto stock: That may not be a bad precedent. That is the first kind of change that would occur.

The second kind of change is that Canada will become a more attractive location for third country investment--Japanese investment, for servicing the North American market. Once again, we have a story of investment in Canada to service the North American market and, in its ability to service the North American market, being in a better position to service world markets. It is the same kind of objective, to service the North American market, maybe by the Japanese.

They are not all going to come here because of the low exchange rate. There are going to be all sorts of reasons why a lot of them will go to the US, but there will still be a greater incentive for the Japanese to come to Canada to invest for servicing the North American market than now exists.

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The third kind of investment in Canada, again to service at least the North American market and perhaps beyond, will be by a Canadian who has a bright idea and wants to sell his product in the US and in world markets. He has a problem right now in terms of barriers at the US border and he may be induced then to go down and produce in the US.

To the degree that you succeed in reducing the barriers at the US border, it means that you reduce his incentive to have to move south. A lot of these people will still move. Northern Telecom is still going to be in the US

and all over the place, in many, many countries, but we are simply talking about a change in policy which reduces the incentive for Canadians to locate in the US market in order to get access to the market.

In answer to your question, I guess miniature branch-plant, replica investment is going to be finished in Canada. The investment in Canada will be directed at the North American and broader markets or it will not exist. I think there is an incentive for it to exist here on that basis, and it will not be just by Americans but by third countries and Canadians as well.

Mr. Beer: I suppose the question mark is the extent to which it would be primarily the third element, the Canadian investment in perhaps particularly high-tech areas, new areas, and the extent to which new American money would come in for some of the reasons you mention and third countries might come in. I suppose there one can simply say, "I think this would happen because of certain factors," but one does not really know.

You mention in several places the exchange rate, and that is an issue that has come up in a number of our discussions since we began. Do you have any kind of sense of a rule of thumb where a rise in the Canadian dollar would reach a point where a lot of these advantages would become negligible or neutral? What is your thinking about where the relationship between the Canadian and American dollar is going? Do you feel that whatever happens there, it is not going to be significant enough to make a change in terms of investment decisions?

Dr. Wonnacott: Well, as Yogi Berra would say, I do not like to predict, especially when it comes to the future. The exchange rate is a tough one. I think there are several observations.

First of all, forget for the moment the pressures on the exchange rate from capital flows, capital inflow or outflow. Those are very important.

Interjection: That is very significant.

Dr. Wonnacott: That is very important, but I want to talk about this before bringing that in. I am not going to ignore it, I want to bring it in, but I want to talk about it first.

Suppose the capital flow is neutral, remained roughly where it is now. If the exchange rate were to go to 80 or 85 cents under a free trade agreement, then I would be very encouraged. I would view this as a sign that we can compete, not just at 78 cents but at 85 cents. An 85-cent dollar represents a very large increase in our real income in terms of all the goods we import at a lower price and so on.

On the other hand, if there is difficulty in Canadians competing in the initial stages of this agreement, then there is the possibility of a fall in the Canadian dollar that would make us more competitive and cushion this adjustment.

It seems to me that is the role of the Canadian dollar. I hope it would appreciate, because it would be a sign that we can compete at a higher value of the Canadian dollar, but I would hate to predict too much on those grounds.

Now the capital flows are kind of the wild card in this. If you look at the experience with the US exchange rate in the last 10 years, for example,

you are talking about capital flows, and our old economic concepts of purchasing power, parity and predicting exchange rates and so on have not got us very far. You are absolutely right on this point.

We may have, indeed, a large flow of investment into Canada with the free trade agreement, and one can think of this in terms of an incentive for third countries to invest in Canada. Incidentally, I think there is one important exception. I think the Japanese will be following their commitments to invest in Canada in automobiles, but I would not foresee huge future commitments by the Japanese to invest in automobiles in Canada. I would be reluctant to make too much of that, because they have such a heavy commitment here already and, second, there are problems that have to do with Canada's tariffs in automobiles against third country imports, parts and so on, from Japan, which are higher than they are in the US, which may take the pressure off that kind of investment.

Let us suppose, to get back to the issue, that we do have a lot of foreign investment in Canada and a net inflow of capital. Then we have to say "plus and minus." The plus is that we have an investment boom in Canada, and that would offer the prospect of economic gains to Canada, which have not been taken into account in these other studies; it would, in fact, boost our benefits from this agreement, really, in a substantial way. At the same time, you would have an appreciation of the Canadian dollar which would be caused by the capital inflow, and it would, on the negative side, put pressure on Canadian exporters. So the capital flow is very important. You are absolutely right, and there is a plus and a minus on the capital-flow side.

We have indeed got away from this argument, but there used to be the argument that with the free trade agreement, the dollar will go to a dollar and we will not be able to compete. That, of course, does not make any sense at all and nobody suggests that any longer.

Mr. Beer: We are often looking at the economic pluses and minuses. One of the other aspects that, it seems to me, is implicit, not necessarily in a single part but throughout the agreement, is that governments are giving up certain powers or potential powers. That might well be a good thing. It is debatable in terms of one's view of what government should or should not be doing.

The problem and the concern I have for Canadians is simply that, given the relative size of our two countries and so on and the history of our country in terms of economic development, we have had a role for our national and provincial governments of whatever stripe that I think has been quite different in historical terms from the Americans'. If a government under this agreement wanted to come in, let us say, and with the national energy program which was essentially doing what Alberta would have preferred to have done, this agreement in the future is going to limit, it seems to me, those kinds of actions, unless the government wants to abrogate the treaty. I suspect that if this once went through, that would become increasingly difficult over the years.

Have you looked at that kind of balance, in other words, throwing in some of the political economy or the public policy implications of this, enabling the Canadian government, let alone provincial governments, to take some action for what would be seen as the national interest but where the free trade agreement would make it very difficult to do that or preclude it? How do you see those tradeoffs?

Dr. Wonnacott: I think your concern is a very valid one. There are certain things we cannot do in this agreement. We cannot impose a set of export taxes which will result in a double pricing of energy. We simply cannot do that according to the agreement. Your judgement on this will, to a large degree, depend on your judgement on whether it is a good thing for Canadians to do that.

However, I would say in general about international trade agreements that there is another influence that Canadians do not understand as fully. That is that a commitment under an international agreement, by binding a government like the federal government of Canada, may well make it easier for the federal government to pursue the national interest as opposed to a special interest group.

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Mr. Beer: Could you just elaborate?

Dr. Wonnacott: Let me elaborate on that. You have a situation in which you have a special interest group that is seeking protection. It is a special interest group that is in trouble. It is seeking protection. It has tremendous political muscle. In the absence of an international agreement, for example, like the General Agreement on Tariffs and Trade, which binds our tariffs and binds Canada from raising its tariffs, it might be impossible for the government to politically resist this pressure.

Because of our international commitments, which not only bind our access into foreign markets, and I am thinking about our GATT commitments now, but also bind us to ensuring that imports can come into our markets, the Prime Minister can say to a special interest group: "I understand your problem. I have great sympathy with it and in other circumstances I would give you the protection you seek. But, gentlemen, I am afraid there is nothing I can do, because we have this GATT commitment."

That is the sort of thing we want the American President to be able to do in dealing with his special interest groups and the American administration and Congress to do when they talk to their special interest groups which are seeking to get protection against Canadian goods. Our international trade agreements do provide us with that binding, but they are of great value to Canadians because they bind us from capitulating to special interest groups within Canada. You can say: "That GATT binding does not allow us to increase tariffs in the future. That restricts our ability to use this element of policy." True, but that may be the point.

Mr. Beer: I suppose there are those kinds of problems. There are others that might affect things like unemployment insurance or regional development kinds of programs where it is not so much that the government is resisting but rather trying to develop a particular program which it deems to be necessary. Again, our historical experience is very different from that of the Americans, and the fact that the agreement has sort of enshrined the softwood lumber approach to certain problems just strikes me as worrisome in that one really does not know how that might impact down the road on other programs, which perhaps we think are fine and yet an American company decides to pursue them as being some form of trade barrier or disincentive and starts to work through the process.

Dr. Wonnacott: You have raised a lot of very interesting issues.

Mr. Beer: Yes.

Dr. Wonnacott: First of all, in the case of softwood lumber, your basic point is absolutely correct. What you have here is, as I said, a very small distance of where we want to go on dispute settlement and dealing with countervail and antidumping, because what we now have is a way of ensuring that there will be a more fair adjudication of the application of US trade laws and Canadian trade laws, both of which are extremely flawed. That is why we are only a quarter of where we want to go and we have a long way yet to go on that.

The one case in which it seems most likely to be true that this new mechanism would have relieved us from the unfortunate application of US trade laws is in softwood lumber. It is not going to give us relief in a whole lot of other areas where we have had problems in the past. It probably would not, but softwood lumber is one case where you had a very politicized judgement made by the Department of Commerce, which would be very unlikely to happen if you had this dispute settlement mechanism in place.

On the question of unemployment insurance, this is very important, because one of the issues that arises is, can we maintain our health delivery system, our unemployment insurance system and so on in a world in which we are moving to a greater degree of competition with the United States? It seems to me that the answer to that is to look at the historical record. Since 1935, when we started on this process of reducing trade barriers, we have developed our health delivery system. We are now engaged in a process of extending this process of trade liberalization. There is no reason, it seems to me, why we cannot defend the developments we have achieved in a world in which trade has been consistently liberalized and why we cannot develop new systems as well.

There are certain reasons that these are beyond the reach of, say, US countervail. They are generally available and so on; these are sort of legal reasons why they are beyond the reach of US countervail, but it seems to me that is an area in which we do not have any great problems with maintaining our own specific Canadian identity, our own delivery systems and so on.

Another good example would be Sweden, a plug for a free trade area with the European Community. It has a completely different set of taxes and delivery systems. One of the problems, of course, is that if you have higher taxes because you have a better medical delivery system, then can your firms compete and so on? Well, they do in Sweden. They do in Minnesota, where you have much higher state taxes and competition with other states in the surrounding area and a much greater delivery system of social services.

If that competition is possible in Minnesota, you ask yourself how that is possible or the various ways in which it is possible. The wage rate may be five cents lower than it would be otherwise in order to compensate business for this. One cannot really be sure what it is, but there it is, and in cases like Minnesota, they do not have the very important policy variable that is available in the Canadian case, and that is the exchange rate.

In other words, if we have problems competing, we are not locked into an exchange rate which would put pressure on those institutions to the same degree as that pressure may be exercised in Minnesota, because the exchange rate can move in response to that.

Mr. Morin-Strom: I seem to recall that the last time you were before us, Professor Wonnacott, you made representations in respect to studies which

you had conducted on the economic impact of eliminating tariffs or the opening up of freer trade between the two countries. Have you reviewed those studies or redone them, based on this deal? Can you tell us what your estimate is of the economic impact on jobs and gross national product, or whatever key economic factors you may have looked at?

Dr. Wonnacott: Our study was done about 25 years ago. We got a fairly large number, something like 10 per cent, of increase in GNP. Rick Harris at Queen's University was puzzled by the size of this and he developed a more elaborate model in which he basically looked at the same issue from a somewhat different point of view, and a more formal point of view, and came up with much the same sort of estimates, perhaps slightly less.

There have been estimates--the more recent estimate by the Department of Finance, for example--which again gives a smaller estimate. You are now down to about two to three per cent increase in income as a result of this agreement.

That is not inconsistent with our earlier estimates, because we have gone through a tremendous amount of trade liberalization in the last 25 years. We have had the Kennedy round and we have had the Tokyo round; they have cut our tariffs by perhaps 60 to 75 per cent. We have had the auto agreement, which has eliminated tariffs between Canada and the United States. It is a 100 per cent cut in tariffs. A lot of trade liberalization has occurred since our original estimate.

I have no reason to contest these figures. I think it is true that you could not expect all these figures to look the same, because to some degree the model selection is of influence in estimating the figures. I think the thing that is of interest is that these broad estimates indicate a benefit which would range from one, I think the low one is perhaps one per cent, up to estimates above the two or three per cent that have now come out of the Department of Finance.

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Mr. Morin-Strom: And these are net impact after the 10 years of full implementation?

Dr. Wonnacott: These are estimates which understate in some respects and overstate in others. That is not a very satisfactory answer, is it? You are absolutely right.

Mr. Morin-Strom: Are they not based almost solely on the impact of tariff elimination, as opposed to looking at the much broader agreement? I suggest to you that most people view this agreement as not being an agreement about tariffs, but being about much more fundamental and longer-term economic and political issues facing our country.

Dr. Wonnacott: These would be estimates which would be based on the assumption that we have free access to the US market and that we get rid of Canadian barriers, which is not a bad assumption. We have free access to the US market. Actually, both of those assumptions are somewhat compromised by the fact that we have a compromise dispute settlement mechanism and a compromise treatment of antidumping and countervailing issues.

Mr. Morin-Strom: So we have no assurances that issues like the penalty on our lumber industry will not continue or we will not see further penalties being imposed in the future, in the nontariff area?

Dr. Wonnacott: We are hoping that, within the next five to seven years, we can deal with these issues. The case of countervail is a very, very difficult one because you cannot get relief from US countervail, and the US cannot get relief from our countervail, without a subsidy code. The US is so far unwilling to agree to a subsidy code and there would be big problems in Canada in agreeing to a subsidy code. But you cannot have it both ways.

The other big problem that compromises our access to each other's markets is antidumping laws in the two countries. There is a real prospect that we can make great progress on antidumping laws. I am talking now about the potash problem and problems of this kind. There is a real promise of major progress in the antidumping area and this would move us from a position of limited success to a position of a really substantial move towards a much more complete degree of success in this whole area of antidumping and countervail.

There are several respects in which these estimates will understate. They overstate because they assume free access and that free access is, to some degree, compromised. It is better access but it is not completely free. They do not take into account the long-run effects in making the Canadian economy more competitive. If you make the Canadian economy more competitive in competition with the United States, you make us more competitive in world markets. So there are a number of other respects in which those estimates will underestimate.

Mr. Morin-Strom: So we have after 10 years the benefit of one per cent to three per cent on these studies, which seem to be qualified studies in terms of whether we do get the access that we want. You put the point forward there on competitiveness, but there are two sides to that sword as well.

Competitiveness means shutting down of plants which have wage scales too high or forcing workers to take lower-scale wages to compete with certain areas of the United States; or it means, as the agreement intends, a merging of regulations and controls on industry, potentially including environmental controls, so that, as industry would say, we are competing on an equal playing field. It could well mean a compromise of our rights to control the workplace, worker health and safety, and our greater priority on preserving the environment than is the American priority.

There are lots of risks that go along with trying to improve our competitiveness in a business sense.

Dr. Wonnacott: There are no reasons we cannot engage in a different set of regulations than the United States. There are different regulations in countries in the European Community. Even there you have an attempt to co-ordinate and harmonize. We are not going to have that same sort of attempt in North America.

Mr. Morin-Strom: There is language in the agreement which commits us to moving towards unified regulations with the United States.

Dr. Wonnacott: There is harmonization of product standards, for example, but there is still the allowance in the agreement for us to determine standards and so on, with explicit recognition of domestic objectives.

The concept of national treatment, for example, which runs through this entire agreement is that in Canada, American goods and not all but a lot of American services will be given the same sort of treatment or equivalent treatment as that given to Canadian goods and services. But there is no commitment that Canadian policies will be made similar to those in the United States.

Let me give you some examples. We can still require bilingual labelling in Canada. Presumably we will. American firms that come into Canada with their products will be subject to exactly the same restriction as Canadian firms. They will have to label in a bilingual way.

There is no reason this agreement will require that we give up bilingual labelling because they do not do it in the United States. We can still impose our own set of regulations. We can impose gun controls. They do not in the United States. In the same respect, we can still do that. The commitment is that when we impose these sets of domestic policies, we must then treat, in the cases where national treatment is specified, US products or services covered by the agreement in the same way as Canadian products or services.

Mr. Chairman: But they have an advantage, of course, because they do not have to do bilingual labelling, which is an extra expense for the Canadian firm.

Dr. Wonnacott: As I understand it, when they bring their products into Canada, they will need to do that. That is a form of protection which will continue in Canada; in other words, that is an element of Canadian policy which will continue. We do not have to harmonize our policy to the United States', which requires unilingual labelling. We can still continue that.

Mr. Chairman: But it is a disadvantage to the Canadian producer who is trying to rationalize his product for a North American market.

Dr. Wonnacott: He has a problem in that when he sells in the US, he has to change the label, but he also gets protection from the US product in the Canadian market where the US producer has that same problem of labelling.

Mr. Chairman: You do not see any opportunity here to force American producers to put bilingual labels on their American products?

Dr. Wonnacott: On the ones they sell in the US? No.

Mr. Chairman: Mr. Morin-Strom, I am sorry.

Mr. Morin-Strom: In your comments looking to the future, you talk about what the impact may be if a future Prime Minister tears up the agreement. Certainly, you are well aware that the views of the public are pretty split on this agreement and the political views are quite severely split. The potential is very real that the agreement will be torn up by someone who may come into office following Prime Minister Mulroney.

What, in your estimation, will the penalty be to Canadian interests of tearing up this agreement after it has been implemented and goes into implementation the first day next year?

Dr. Wonnacott: Let us take automobiles as an example. Automobiles have come out of this with the existing safeguards which protect Canadian

employment but not US employment. They still remain. There is only one safeguard, rather than the two, but it is a \$300-million-a-year incentive, so you still have the same safeguard you had for Canadian employment but not for US employment. An area of great concern in the United States, in Michigan and elsewhere, is that whole agreement under the auto pact.

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You have also dealt with duty remissions, which are a really serious irritant for the United States, because in some cases they have come in the form of what was judged to be an export subsidy back before the auto agreement; that is, a firm that exports under the export-based duty remissions, a Japanese or a European firm that buys parts in Canada and exports them to the United States will get a remission on the duty it pays in bringing its cars into Canada. That was judged back in 1965 as an export subsidy because the duty remission on the import of its cars is cash that goes right back from the Canadian government to these companies precisely because these companies do export.

That was the thing that triggered the crisis that brought on the auto pact in 1965, but there is a big difference between the new ones and the 1964 duty remissions, because they were on cars brought in from the United States, where these imports were generating employment and income in the United States. At present, the duty remission is on imports from Japan and Europe and they generate employment and income in Japan and Europe.

In the case of duty remissions, which so far have not been a big deal because these operations have not really got under way, you have a really serious irritant that essentially guarantees, in the absence of this pact, some unilateral action by the Americans on Canadian auto trade. Just how far that would reach into changes in the auto pact itself is not clear. Now that is just automobiles.

Mr. Morin-Strom: You have not answered the question, though. My question was, when the deal is torn up--take your example--what will happen to the auto pact? Will we go back to the old auto pact or will we have no auto pact?

Dr. Wonnacott: I am saying that one can essentially guarantee US action on auto trade between Canada and the United States because there are so many irritants that would otherwise exist. The question is, how far would that unilateral action reach into present auto pact institutions? That is not clear.

Mr. Morin-Strom: Are you not really saying then that in the case of the auto pact, Prime Minister Mulroney, without a mandate from the people, is holding the Canadian public at ransom at this point? He does not have a mandate for this agreement. He may well implement it without an election. Then we are in the position where he has thrown open the potential of our not having an auto pact at all and throwing up other potential dangers, which you have listed here, of tearing up the agreement afterwards--

Dr. Wonnacott: No, you would have this--

Mr. Morin-Strom: --by people who believe this is a bad deal and believe we have to get out of it because of the long-term impact on our own independence as a nation, our control of where we are going with this nation. How can he possibly implement something which puts the Canadian people at

ransom in a fashion, as in your example, that completely eliminates the auto pact?

Dr. Wonnacott: I was not talking about the complete elimination of the auto pact, and I want to dissociate myself from some of these melodramatic suggestions. But let me stay on track--

Mr. Morin-Strom: I want to know what happens when the deal is torn up and what Prime Minister Mulroney is doing in terms of threatening our relationship with the United States afterwards as opposed to not going through with the deal.

Dr. Wonnacott: If the deal were to be torn up, then there would be US action on auto trade between the two countries, just as there would have been US action on auto trade between the two countries if this free trade initiative had never been born. That is my point. We have irritants which existed--

Mr. Morin-Strom: I am not aware of any evidence that action was imminent or even suggested in the United States before the negotiations of this deal started.

Dr. Wonnacott: The duty remissions, for example. The Americans have understood this. You had irritants there. Whether or not there was a free trade negotiation taking place, you had irritants in terms of Canadian policies developing. You had irritants in terms of the asymmetrical safeguards in the auto pact that were going on for years.

Mr. Morin-Strom: But you also know that the major producers, who have the political influence in the United States, favoured the continuation of the auto pact because they knew they were the ones who would be penalized if that agreement was torn up. The political pressure in the US was against taking any action by the US government because the duties that would be imposed, if we had eliminated them, were there as our safeguards. They were our protection that the US would not tear up that agreement. That has disappeared and we are now going to be in a situation where we are extremely vulnerable.

Mr. Chairman: I think this is a very important point, but the time is moving on. I do not know that Professor Wonnacott can necessarily answer for the political pressures that will occur in the future in the United States. It is a moot question as to what the status of the auto pact would be. It depends, I suppose, how far we are into the agreement. Right now, I think it is still existent, but it will eventually, if the agreement is accepted on both sides of the border, be incorporated into the agreement. Therefore, if the agreement were torn up, in the chair's view the auto pact would be nonexistent.

Dr. Wonnacott: No, I am not sure I would go along with that.

Mr. Morin-Strom: I am not sure about that.

Dr. Wonnacott: I think we would then revert to the auto pact, but the question would be, how far are US actions on auto trade--

Mr. Chairman: All right.

Dr. Wonnacott: Whether or not it would reach into the auto pact and, if so, just how? I do not think either of us are in a position to predict that. I think it is just a big element of risk.

Mr. Chairman: In any event, I am gathering from your evidence that the auto pact itself, in so far as it managed the trade and controlled the trade between the two countries, was not particularly advantageous. You have preferred simply to have had tariffs removed between the two countries in 1965. That seems to be the gist of what you are saying with regard to their products.

Dr. Wonnacott: No, the auto pact has had a lot of benefits for Canada.

Mr. Chairman: Has it?

Dr. Wonnacott: There is no question about that in terms of more efficient production in Canada, higher productivity in the labour force, higher levels of income, better prices of automobiles in Canada than we could have expected otherwise. There have been huge income gains from the auto pact.

Mr. Chairman: You are arguing that we do not need any of those controls in the future with regard to other products. You are arguing that, in so far as third-party producers are concerned, the North American content rules are sufficient. It would seem to me that same argument would suggest that the investment that we have had in this country would have come in any event, without any rules.

Dr. Wonnacott: I am sorry. When you said the benefits from the auto pact, I was comparing it with the previous situation where there was protection in automobiles.

Now the question is: Has the auto pact been more beneficial? Or, how would it compare with free trade in automobiles where it was not managed.

Mr. Chairman: Yes.

Dr. Wonnacott: The answer to that would be that, if those guarantees had been phased out, say, over a 10- or 15-year period, then I cannot foresee there would be much difference. In other words, we are basically in a situation where we are getting benefits from free trade in automobiles. The Canadian location is a good location. We have certain safeguards, but the production in Canada is now exceeding that--not for every firm, but it is exceeding that for the industry in the aggregate. The picture now is not that much different from a picture that would have developed had we had the auto pact and had the safeguards been phased out over, say, a 10- or 15-year period.

Mr. Chairman: I am sorry. I intervened and time is moving on. I am going to give Mr. Mackenzie and Mr. Neumann each two minutes, if I may.

Mr. Mackenzie: You state on page 3, at the beginning of your presentation, that the advantages that accrue to Ontario in terms of accessing the US market are better advantages than accrue to many of the US states. I just wonder what your answer is as to how you relate that to the reaction in my contacts with some of the heads of unions in the United States and their conversations concerning some of the businesses they deal with. It is one of great concern in the northeastern United States and in Michigan over the

businesses, the jobs, the wage levels, the benefits that they are losing to the Sunbelt, to US states with lower labour standards.

It is not a minor problem in those US states; it is a major problem. People like Lynn Williams and the head of the Retail, Wholesale and Department Store Union, Leonore Miller, and some of the others who sit even on some of the top economic councils in the US tell me that is a major concern of theirs. How is Ontario going to have this free ride which does not exist in some of the major northeastern and northern US states?

1210

Dr. Wonnacott: I do not think we have a better position in all US states. I am not sure we have a free ride. I am just saying we are in a good competitive location. It is true that the centre of US activity is drifting south, although you have cases--in Massachusetts--where you have a boom; it is one of the most prosperous states in the union.

My summary reaction would be that if you are looking at the benefits from free trade as they exist today, they would be less than they were 15 to 20 years ago, as we already have so many gains as trade has already been liberalized and, second, because the US centre of activity is drifting slowly to the south. That does not mean there are not very large gains that remain. It is not clear to me that this drift is as important as it is sometimes advertised, because of states like Massachusetts.

Mr. Mackenzie: That is one state. I could give you an awful lot of arguments otherwise on that particular point.

Dr. Wonnacott: There is a drift; I agree with you. There is that drift, but the question is--

Mr. Mackenzie: It is something our Ministry of Labour, in the areas it did address in its brief, also pointed out, the threat that exists to no minimum wage and minimum wage and literally no benefit states, of which there are a large number, becoming the newly industrialized states in the US.

The other thing is this huge access to the US market. It was originally a much bigger seller than it obviously is now, as we hear from more people. Some of our major industrial areas--I am talking about steel and forestry--have made it very clear that they are not looking at further access. The battle is almost totally one of the status quo. While I understand the fear of protectionist legislation, I wonder where the great benefits are in terms of accessing the US market when we have major industrial sectors making it very clear that they are fighting to protect what they have or the status quo. It seems to me we have given up an awful lot in the name, originally at least, of accessing a huge US market which is not going to be there.

Dr. Wonnacott: My only judgement on this would be that under this agreement we will have better access to the US market than we would have without an agreement. That may not mean better access, though I think it will mean better access, but it may not; it may simply be to prevent a deterioration in our access. As I look at the agreement, I can see that it provides us with better access than we would otherwise enjoy. I think that is the extent of the claim. It is not the perfectly secure access that has sometimes been claimed, but there are a number of very important reasons it is better access.

The dispute settlement mechanism guarantees us decisions within a year rather than the four to five years we might have to wait under the General Agreement on Tariffs and Trade or under the US courts.

Mr. Mackenzie: But those decisions, as you know, are no more than whether the law of the particular country has been abrogated. I have heard a lot of arguments that certainly do not give an awful lot of credence to the dispute settlement mechanism. Almost everybody lists it as one of the concerns in which we maybe did not do well enough.

Dr. Wonnacott: I agree we did not do as well as I would have hoped, but that does not mean we did not make progress.

Mr. Mackenzie: You make the case that Ontario's role should not be seen as one of denying other parts of the country the benefits. Obviously, I have some disagreements with your analysis of the auto pact, but you do agree it served us quite well. In agricultural implements, trade was free, with no safeguards for Canadian content, no performance requirements, nothing, and we have run a deficit consistently, in most cases an increasing deficit, since 1948.

The big manufacturing success for trade in Canada seems to have been Northern Telecom, which has been very successful in exporting to the US. It owes much of its success to the fact that it has received generous government subsidies to spur its development and had the advantage of a captive market with sales to Bell Canada, which gave it some strength here. Northern Telecom will lose this exclusive market and is regarded by many as one of the potential losers in this deal. I think the benefit of a trade deal like the auto pact will no longer be possible for any sector in Canada.

If I can use a direct quote from Mr. Reisman on this from the Toronto Sun of October 11, "I would say that never again in a commercial relationship with the United States will there be a division of the market in that way."

Dr. Wonnacott: As in automobiles?

Mr. Mackenzie: I am just wondering how you answer what has happened in terms of agricultural implements and the fact that we have had a continuous deficit there with a total free trade arrangement.

Dr. Wonnacott: There will not be a division like in automobiles because the Americans will not accept Canadian protection without protection on their side.

Mr. Mackenzie: So obviously we cannot use any such method in future in any sector that we may want to.

Dr. Wonnacott: The suggestion that it is an alternative policy to have all our little auto pacts is entirely out of the question. I agree with you 100 per cent on that.

On farm implements, it depends a lot on whether you look at it from the point of the farmer who buys these or whether you look at it from the point of view of a deficit in the balance of trade. It is very important in analysing trade not to be too preoccupied with the question of deficit in a particular sector. If the Japanese put a tremendous tariff on oil imports, they can reduce their deficit--not oil from Saudi Arabia--but that is going to be extraordinarily damaging to the Japanese economy.

Mr. Mackenzie: They also never built their economy based on free trade. They built it based on a whole market and a gradual penetration of their products into other markets, product at a time, as you know.

Dr. Wonnacott: My point is that in terms of saying that the objective of trade policy is to run a surplus in a particular industry--first of all, you cannot do it in all industries--is an objective that is difficult to defend.

Mr. Chairman: Mr. Neumann, three minutes.

Mr. Neumann: I have many questions I would like to ask, but given the limitation of time, I first want to commend you on your presentation, Professor Wonnacott, and the balance we see, with both points of view expressed and an indication that the extremes that have been stated on both sides should be modified to some degree.

One thing I will focus in on, given that I have limited time, is your reference to the need for adjustment as inefficient industries go under or branch plants of American companies get shut down. I come at this from a different perspective, having been mayor of the city of Brantford. We have gone through a lot of these kinds of adjustments and we know what they are like on the front, on the firing lines.

Dr. Wonnacott: Yes.

Mr. Neumann: You perhaps look at it academically. What should our country do to assist the workers and the industries affected by the dislocation that you say will come?

Dr. Wonnacott: I think the major focus on assistance should be on the labour force and not on firms. I am not saying that we should not provide assistance to firms, but we have to be very limited and restricted by the requirement that, if you want to assist firms, you want to assist them in such a way that you are not just assisting losers, you are assisting winners.

In the Canadian case, winners in a world in which this trade agreement comes into effect means firms that can export to the United States. You have to be very, very careful that you are not subjecting yourself to potential countervail measures by the United States for subsidizing firms that are exporting to the US. That is one good reason for putting your focus on the labour force, but there are about 10 other reasons why I would say the major focus in assistance should be to the labour force.

We already have a lot of mechanisms in this country which are very highly regarded by other Organization for Economic Co-operation and Development countries, by the US, and the question is, should these be beefed up? Should new programs be announced? I do not take a strong view on that. It seems to me from a political point of view there would be great advantage in the government announcing new programs, but there are also advantages, it seems to me, in standing ready to beef up existing programs as the need arises.

The big problem of adjustment is the adjustment that is taking place, the kinds of things you have been looking at in Brantford in the last decade or two, which are independent of this agreement. They are in response to the changes that are occurring domestically and in terms of the world economy that are requiring adjustment in Canada. These are the big adjustments; those will c

continue and it is very important that we have an appropriate program for dealing with those. We will be adding another layer of adjustment and we have to stand ready to put more funds into assisting that. The question is whether it should it in new programs or existing ones, and I do not have a strong view on that.

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Mr. Neumann: If I could just respond briefly to that, because I can speak from personal experience, as I have seen both kinds of adjustments in effect, with respect to the kind of adjustment you are talking about, which goes to the worker, we are all in favour of those kinds of adjustments but they are short term. They provide maybe short-term, make-work programs or retraining.

We had both kinds. We also had the subsidies to industries to encourage them to locate in our community. The industry and labour adjustment program went after attracting efficient, imaginative, creative kinds of industries to locate there. They created long-term, permanent jobs.

You are saying that under this agreement our Canadian government, which in the past came up with a program like ILAP to assist urban areas hard hit by dislocation, cannot do those programs any more, and they are the best kind of programs. They create the long-term jobs.

Dr. Wonnacott: I do not see any problems with the existing programs like ILAP and the modified industry and labour adjustment program. I am just saying, if you are talking now about building in new programs of assistance of various kinds to Canadian firms in this new circumstance, then one has to be very careful to tailor them to make sure that you are beyond the reach of US countervail. I do not have difficulty with those existing programs.

Mr. Neumann: I think the argument you are missing here is an argument of sovereignty that many of us have made on the committee. When you say existing program, ILAP no longer exists. It was a program that came out to deal with a situation in the early 1980s. It served its purpose and it is gone. What I am talking about is the ability of future Canadian governments to implement future programs to suit the needs of the time. We cannot predict what those might be. We are going to be restricted under this agreement in implementing programs to suit the circumstances of the time.

Dr. Wonnacott: It is not clear that it would be restricted if these programs are generally available. It is like unemployment insurance. If it is generally available, there should not be great restriction, but if you are putting it on firms you have to work within this countervail restriction.

Mr. Neumann: I have several other questions but the time has elapsed.

Mr. Chairman: That is a very poignant one to end on and it gives us some food for thought.

Once again, sir, you have been provocative, frankly, with us but you have given us, again, a very frank statement as to what you believe. You have also done so with the basis of your own very extensive background in Canadian-American economic affairs. I appreciate your coming here and being with us today.

Dr. Wonnacott: With great respect, I appreciate the chance to do so.

Mr. Mackenzie: Just before we leave, I was going to shoot a note up to you, but if I can just raise a matter I would like to make a suggestion, in a positive vein, that we consider alternating party questioners where they wish to participate, or also in conjunction or possibly as a separate measure, if that is not something the chairman wants to rule, to limit the members in terms of questions asked, myself included.

In fairness, yesterday with Mr. Macdonald I asked a number of questions, but every one of the six Liberals here asked questions. Both Karl and George McCague were on the list and did not get a chance because of the time frame. This morning Mr. Haggerty took quite a long time--and I have no objection to the questions he asked--and Mr. Beer a lesser time, but it meant that all of the rest of us were severely restricted. I know I had a number of questions that I wanted to ask and was not able to.

I guess what I am asking the chairman is to take a look at just the procedures in handling the time and maybe, as we do in the House, at least for a start, use the alternating parties method.

Mr. Chairman: I think that bears some consideration, Mr. Mackenzie. Yesterday, as I pointed out, I think all the Liberals actually had asked to ask questions before I saw anyone from the opposition. I did put you ahead so that there would be some opposition representation. I did not see Mr. McCague's hand until it was really too late to work him into the system.

Mr. McCague: Now when I need you, you have stopped everything.

Mr. Chairman: As I recall, I saw your hand during the last question.

I think that probably is a fair way to do it.

Mr. Mackenzie: We could have a contest to put our hands up first, but it might be better to at least consider alternating parties.

Mr. Chairman: Yes. The reason I did not do it today was I thought it was a fairly academic discussion in any event and I thought we would have enough time to get around to everyone. In fact, I did not judge it as well as I might have. In the future then, government members will understand if they see an opposition member being recognized seemingly out of turn.

The committee recessed at 12:25 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

TUESDAY, JANUARY 26, 1988

Afternoon Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Beer, Charles (York North L) for Mr. J. B. Nixon

Fleet, David (High Park-Swansea L) for Mr. Ferraro

Sterling, Norman W. (Carleton PC) for Mr. Villeneuve

Also taking part:

Harris, Michael D. (Nipissing PC)

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Institute for Research on Public Policy:

Smith, Murray, Director, International Economics Program

Stone, Frank, Research Associate

From the Ontario Lumber Manufacturers' Association:

Martel, Yvon, President; President, J. E. Martel and Sons Lumber Ltd.

Milton, David G., Executive Director

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Tuesday, January 26, 1988

The committee resumed at 2:04 p.m. in room 151.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: Just to let the folks at home know, we have five or six government members here but no opposition members. I hesitate to start the proceedings without the opposition here, but we will see for the next couple of minutes what their interest is in continuing to perform their duties as members of the Legislature. We will adjourn for two minutes.

The committee recessed at 2:04 p.m.

2:06 p.m.

Mr. Chairman: We have Mr. Mackenzie here today to represent the two opposition parties.

This afternoon we have Frank Stone and Murray Smith with us from the Institute for Research on Public Policy. I have had the distinct pleasure of meeting both these gentlemen before. Mr. Stone is probably trade negotiator incarnate for Canada, having been involved in the General Agreement on Tariffs and Trade negotiations historically, going back I am not sure how many years, including the Canada-US agreement on Great Lakes water quality. He certainly was very much involved in the last GATT negotiations.

He is the author of Canada, the GATT and the International Trade System, which was published in 1984. He has appeared before this committee or its predecessor committee, the select committee on economic affairs. It is my recollection that his appearance before that committee about two and a half years ago sparked that committee's interest in a dispute settlement mechanism and some of the concepts that might have been in an agreement. I am hoping he will address that issue today.

I met Mr. Smith this summer at a conference of legislators from both sides of the border in British Columbia, where it was Attack Ontario Week. I learned a lot about how popular we are in other parts of the country at that time.

Mr. Sterling: Are we more popular now?

Mr. Chairman: He is an extremely articulate economist and obviously has a good reputation as well. The thought was that Mr. Stone and Mr. Smith would speak in tandem this afternoon with the negotiating questions probably being handled by Mr. Stone and the more pure economic questions by Mr. Smith. Is that a fair way of dividing it? I am sure you can divide it yourselves. I would ask you to perhaps start off with an opening statement, if you would, and then I am sure questions will come after.

INSTITUTE FOR RESEARCH ON PUBLIC POLICY

Mr. Smith: First of all, in speaking to a group such as this, I think we should make it clear that the Institute for Research on Public Policy is an independent, nonpartisan and nonprofit organization which undertakes research. The views on these issues expressed by myself and my colleague Frank Stone are based on our own research and our professional experience. We do not formally represent the views or positions of any members of the institute.

We in the international economics program have undertaken a great deal of research on Canada's trade relations, both with the United States and, more generally, with other countries as well. I can literally table here some of our publications with the committee and we could make more of them available to the committee. I presume in the light of the proposed free trade agreement Canadians must place greater stress on marketing, so I am tabling some of our wares. Certainly, the publishing industry seems to be fairly heavily engaged in the free trade industry, if no one else is.

In terms of the subject of our remarks, I thought I would try to set this proposed agreement in the context of other regional trading arrangements that we observe around the world, most notably those in Europe. My colleague Frank Stone will look at this proposed agreement's relationship with the General Agreement on Tariffs and Trade and compare and contrast some of the dispute settlement elements of that arrangement with those of the GATT and other institutions.

I must say that as an international economist, I find there is a tendency here in Canada to look at these agreements or proposed agreements in a largely North American context. We tend to ignore the experience of other countries. In fact, Canada and Japan are the only members of the Organization for Economic Co-operation and Development which are not members of a regional trading arrangement at the present time, so there is a lot of experience that we can look to from other countries.

My first observation about the Canada-US agreement is that it is a classical free trade area under the terms of article 24 of the GATT. It provides for elimination of tariffs over 10 years, and there are clear, predictable rules of origin based on changes in tariff classification.

Peoples' eyes glaze over when one mentions rules of origin, but this basic plumbing of a free trade area has policy significance that is often overlooked, despite the fact that we have had over two years of free trade debate here in Canada. The essential feature of a free trade area is that each country retains its own independent commercial policy. Protecting and retaining this independence require clear rules of origin, and the rules of origin in this agreement appear clear and predictable.

Furthermore, there is much less uncertainty and paper burden than exists in the rules of origin of the European Free Trade Association or in the bilateral free trade agreements between EFTA and the European Community. None the less, I was somewhat bemused. Some months ago, you may recall, customs officers were parading on Parliament Hill protesting free trade and the hypothesized loss of their jobs. I would suspect that there would be more rather than fewer customs officers employed when it comes to keeping track of the rules of origin, rather than having customs points disappear between Canada and the United States.

My second observation I would make about this agreement, and that is really based on a review of the text, is that the terms of the agreement are interwoven with the terms of the GATT, and many of the issues dealt with in this agreement are interlinked with the Uruguay round negotiations. Frank will explore some aspects of that with you in more detail, but again, I would say that the Canada-US arrangement is very much in the GATT tradition with free trade areas. For example, in the case of agriculture, this agreement, as with many other previous free trade areas in the GATT, has excluded major portions of the agricultural sector. We are on good grounds in the GATT for doing so. There are lots of past precedents and the GATT rules clearly permit the retention of quotas when you have a supply-management regime.

Indeed, it may be somewhat ironic, but the United States and Canada are considering or contemplating much more sweeping liberalization of agricultural trade in the Uruguay round than is proposed in the Canada-US agreement.

So far, I have been talking about the elements of the free trade area or free trade agreement, which, although they may create adjustment pressures on one side of the border or the other, have been relatively uncontentious since the outset of the negotiations.

A much more contentious set of issues involves nontariff barriers to trade, the rules for unfair trade and the very sensitive policies affecting direct investment or trade and services. These more contentious issues have been dealt with in different ways and with varying degrees of effectiveness in past regional trading arrangements.

There are basically two approaches that can be followed. Previous free trade agreements such as the European Free Trade Agreement, devised rules of competition to deal with nontariff barriers to trade in goods and to deal with unfair trade issues. The basic philosophy of EFTA is to focus on those trade measures that created distortions to competition.

The European Community follows a much more comprehensive approach to these issues than does EFTA. The European Community, under the Treaty of Rome, has very broad commitments to national treatment, not only for trade in goods but for trade in services and investment issues.

The rules of competition that are drafted or implicit in this agreement really fall between these two extremes, between the more limited pragmatic approach of the European Free Trade Association and the much more sweeping provisions of the European Community. Bilateral negotiations have produced a hybrid that shares elements of the EFTA system and the EC system and includes some unique elements.

One area of great difficulty in the Canada-US talks involved the development of rules and dispute settlement about unfair trade issues, particularly countervailing duties. My colleague will be addressing some of the issues in dispute settlement in more detail. I will note that the dispute settlement provisions in the Canada-US agreement are much more formal than in other bilateral free trade areas, including the EFTA-EC bilateral agreements, the US-Israel agreement and the Australia-New Zealand agreement.

For example, the US-Israel agreement provides only for a conciliation process, and all those bilateral free trade areas I mentioned rely on consultation between the member governments to resolve disputes. None of them has substantive provisions that apply with respect to the application of trade

laws in trade between members of those original trading arrangements. Each party can take whatever action it likes with respect to antidumping, countervailing duty or escape clause provisions.

Furthermore, the joint committees that are set up to deal with disputes between the two countries have no formal dispute settlement process comparable to that which exists within the GATT. So I think when you are looking at the dispute settlement provisions within this agreement and comparing them to those in the GATT, you should do so in recognition that none of the other free trade areas has that kind of machinery based in it.

I think all of us here are aware, given some of the recent experience, why there was some preoccupation with the dispute settlement processes in the Canada-US agreement.

In the services and investment area, the proposed Canada-US agreement goes further than the EFTA-EC bilateral agreements, but falls well short of the full commitments to national treatment and the rollback of barriers that apply within the European Community. In the Canada-US agreement, many existing laws and measures that deviate from national treatment are grandfathered on both sides of the border.

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There is no parallel within the European Community, other regional trading arrangements or even the GATT for the broad exemption for cultural industries which is a feature of the Canada-US agreement. Indeed, the controversial postal rate subsidy issue, which in the end dropped out of the final text of the Canada-US agreement, is one that may well arise in the near future in a GATT context.

Not only are the services and investment provisions in the Canada-US agreement less sweeping than exist within the European Community, but in many respects they also anticipate what may occur or may be achieved in pluri-lateral or mini-lateral agreements in the Uruguay round of GATT negotiations.

One aspect of the Canada-US agreement that has been very controversial is the energy chapter. Again, this is a chapter in which I think it is useful to look at how the arrangements here compare with the provisions in other free trade areas.

The energy provisions in the Canada-US agreement can really be characterized as a set of special exceptions from the general obligations to eliminate tariffs and quantitative restrictions. For example, on the US side, there is only a limited exemption from the prohibition on exported north slope oil. On the Canadian side, there is an exemption from the application of many of the investment provisions to the energy sector. Both countries retain the right to impose quotas under the various provisions of article 20 of the GATT, including conservation of exhaustible resources and problems of short supply or supply disruptions.

I think it is instructive to note that in the bilateral free trade deals between the EFTA countries and the European Community, there is no energy chapter as such. The general provisions of those agreements apply to energy trade.

Thus, article 7 of the free trade agreement between the European Community and Norway says there shall be no export duties or taxes, period, on any products, including energy. There is a particular provision that applies to energy trade, however, and that is in article 14 of the EC-Norway free trade agreement. The community reserves the right to restrict imports of petroleum products unless the community and Norway can develop a common energy policy.

To translate the EC-Norway deal into a North American context, that would be saying, if we were looking at the Canada-US agreement, we could have no export taxes, as there were in the national energy program; but if it turns out, as energy pricing unfolds in the world marketplace, that some problems arise because Sarnia is putting petrochemical products into the US market and causing disruption, then the United States would be reserving the right to restrict imports of petrochemicals or petroleum products.

I suggest that is not in the Canada-US agreement. Both sides are giving up all of their import barriers in the energy side, so I suggest that in evaluating the energy provisions of the Canada-US agreement, it is useful to look at the arrangements in other agreements around the world.

Mr. Chairman: Could I just ask a question?

Mr. Smith: Sure.

Mr. Chairman: The major concern I think a lot of members of the committee have with the energy section has to do with the proportionality rule. I am not hearing that there is any rule like that in the European agreement. Really, we have gone a step farther, have we not?

Mr. Smith: The European agreements explicitly incorporate, as does the Canada-US agreement, article 20 of the GATT. Under article 20 of the GATT, both the relevant provisions, quantitative restrictions with respect to conservation of exhaustable resources or the provisions with respect to short supply, have a vague language that suggests proportionality, and this has often been a source of dispute in the past.

What the EC-Norway deal does, for example, is incorporate exactly the same language that is in the GATT. If, for example, Norway were to restrict exports of oil to the community, it would be a question of interpretation of what is an appropriate proportional reduction in national consumption as opposed to exports. The same type of provision is in the EC-Norway deal; it is just not as precise as in the Canada-US agreement.

That cuts both ways in the sense that Canada may have limits on how much rationing it is permitted to do under the Canada-US agreement; on the other hand, it makes clear how much we are allowed to do; so there is less ambiguity and differences of interpretation that could arise in the future. As I am sure most people are aware, it is in precisely these kinds of circumstances, when there is a lot of pressure on us with a world energy crisis or whatever, where it becomes very difficult to interpret what is a proportional reduction in energy supply.

One other point I would make, though, is that if you look at the case of Norway, Norway is not a signatory to the international energy agreement; Canada is. I think in most cases involving short supply of oil, the provisions of the international energy agreement are more likely to bind Canada with respect to our trade in oil. Indeed, if there is a shortfall in energy

supplies of about seven per cent throughout the OECD region, countries such as Canada are obliged to increase exports of oil rather than simply a proportional reduction. I think it is somewhat interesting that Norway is not a signatory to the international energy agreement; it may be its sensitivity on the energy supply question that lies behind that.

Mr. Chairman: If I can just pursue that, we are already bound by article 20 of the GATT, are we not?

Mr. Smith: Exactly, yes.

Mr. Chairman: You are saying we are basically just defining it better.

Mr. Smith: Exactly. As to the difference under the new Canada-US agreement as compared with what prevailed at the time of the national energy program, there are not major changes in the restrictions Canada can impose under article 20 of the GATT, but we cannot impose export taxes per se. We cannot say it is going to be \$5 over and above the Alberta wellhead price per barrel of oil shipped into Chicago. Exactly that provision is in the EC-Norway agreement. There are really these two provisions that operate in tandem. One is the question of what rationing mechanisms you put in place, what quantitative restrictions you use to regulate energy trade and what tax measures you might use, export taxes or duties, that have the effect of creating two prices between the two markets. It is the price measure or the export tax which is prohibited in free trade areas.

I guess Frank will be going into the compatibility with the GATT, but if Canada and the United States retained export taxes on any products, including energy, that would raise a question about whether the agreement qualifies under article 24 of the GATT, because all duties are supposed to be eliminated under article 24, both import tariffs and export taxes.

Mr. Chairman: In defining "proportionality," we are talking about "proven reserves" and "current production." Is that defined by the exporting country?

Mr. Smith: In the Canada-US agreement?

Mr. Chairman: Yes.

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Mr. Smith: No. There is a formula in the agreement--let me just look. It is article 904(a), for those of you who have a copy of the agreement. You can introduce any restriction as long as it "...does not reduce the proportion of the total export shipments of a specific energy good made available to the other party relative to the total supply of that good of the party maintaining the restriction as compared to the proportion prevailing in the most recent 36-month period." So it is the ratio of total Canadian exports over total Canadian supply, including imports and shipments from inventory.

Mr. Mackenzie: Let me put the same question that is being asked here, if I can, in a simple way. I want you to tell me if this is incorrect then. For example, if we were producing 1,000 barrels of oil a day and were exporting to the US 700 barrels, 70 per cent to the US, and our production was cut, for whatever reason, to 500 barrels a day, we would not be obligated to still supply them with 350 barrels based on the previous 36-month average?

Mr. Smith: No.

Mr. Mackenzie: You are saying that is not accurate? That is certainly what we have had, not only from our own research people but from a number of other groups. I would like to know whether or not you are disputing that point.

Mr. Smith: The formula, first of all, is that we would have been producing 1,000 barrels a day?

Mr. Mackenzie: That is right.

Mr. Smith: OK. We are also importing and consuming, say, 1,000 barrels a day as well.

Mr. Mackenzie: We may or may not. All I am saying is that--

Mr. Smith: But that would enter into the formula.

Mr. Mackenzie: If we were producing 1,000 and we were exporting 70 per cent of that, 700 barrels, to the US, and that production--I guess we are using set figures--had to be cut back to 500 barrels, we would still be obligated under that agreement to ship 70 per cent, or 350 barrels, to the US.

Mr. Smith: The provision here only applies--

Mr. Mackenzie: The ambiguity bothers my ambiguity in understanding some of this, I have to tell you. That is why I am trying to reduce it to the simplest terms.

They are guaranteed proportional access, which for example--and this was the case given to us--means that, if we were producing 1,000 barrels of oil a day and were exporting 700 barrels to the US, 70 per cent, and our production was cut to 500 barrels a day, the US would be guaranteed the same proportion as they were receiving previously, i.e., 70 per cent or 350 barrels, based on a 36-month average.

Mr. Smith: But there is a 50 per cent reduction in production. Suppose the National Energy Board decides that you were exhausting the reserves in the western sedimentary basin faster than we previously thought, so it is going to reduce domestic production by 50 per cent.

I think that conclusion is wrong. I have to work through the equation. There is something that is disturbing me about this whole discussion.

Mr. Mackenzie: Something is disturbing me about it, I can tell you.

Mr. Fleet: It disturbs us too.

Mr. Chairman: You have indicated that our imports should be factored into that.

Mr. Smith: Yes, that is right.

Mr. Chairman: Maybe that is what is disturbing you.

Mr. Beer: Just to add on to the example, if what Mr. Mackenzie was saying was the reality, but at the same time, we were importing 1,000 barrels from elsewhere, that becomes part of the equation?

Mr. Smith: Yes.

Mr. Beer: How does that work and where is that clear in the text?

Mr. Smith: The provision in the text is article 904(a). It says, "...does not reduce the proportion of the total export shipments ... relative to total supply." So the 700 barrels would be relative. Say our production is 1,000 and our imports are 1,000. The total supply includes all imports and shipments from inventory. So you have 700 over 2,000. So the restriction, as I understand it, would be that the exports after the restriction must be--

Mr. Mackenzie: You are arguing that it would be 35 per cent instead of 70 per cent.

Mr. Fleet: But it could be higher. If you look at article 904(c), there is another provision about disruption of normal channels of supply. I take it the Americans could argue, depending on the particular goods involved, that you are disrupting a normal channel of supply. You might have to give it a much higher figure than 35 per cent; in fact, there is no limit to how much higher it might be, depending on how one defines what a normal channel of supply is. They have given one example there, but I am not sure that would necessarily tell anybody reading this agreement how much it is.

Mr. Chairman: Perhaps Mr. Smith could carry on and finish his presentation. I apologize; I interrupted you initially. I have Mr. Neumann for a question later.

Mr. Sterling: Maybe if you think about it, you could write it down.

Mr. Smith: Yes, I want to write down the equations and work it through, because--

Mr. Chairman: If you will, Mr. Smith, Mr. Neumann has one further question on this point.

Mr. Neumann: Does the energy provision in the agreement mean that if the Canadian government decided we were not going to be able to meet our domestic requirements because we had overestimated, let us say, our reserves of petroleum in Canada, and that we would embark upon a policy of reducing exports in order to better handle the needs of the Canadian market, that would be contrary to the provisions of the agreement?

Mr. Smith: No, not at all.

Mr. Neumann: Could we eliminate exports altogether in order to satisfy the Canadian market?

Mr. Smith: The restriction here is that you cannot overturn contracts, as it were, impose restrictions on private contracts relative to this proportionality requirement. You are quite permitted to restrict total production of energy products and to restrict exports. The proportionality provision comes in when you are overturning contracts which have been arranged between private firms. You could allow certain volumes of gas or oil or

whatever to be sold on an interruptible or temporary basis, but this is where you are imposing a rationing mechanism, either because of problems of article XI:2(a) of the GATT, of short supply of an emergency nature, or because of this long-term goal of conserving the exhaustible resource.

Mr. Neumann: Let us say seven or eight years from now we are well into this agreement and Canadian government officials, in analysing our energy reserves, decide that if we keep exporting at the rate we are, we are going to experience shortages in the long term and, therefore, we will start prohibiting exports, new contracts and reserve our energy for the domestic market exclusively. Could we do that?

Mr. Mackenzie: That worry was outlined in the Ministry of Energy presentation, if you look at the specific section of it.

Mr. Neumann: In other words, could we establish a policy to restrict exports to favour the domestic market?

Mr. Smith: I think you could under article XX of the GATT. It comes under the question of exactly when this proportionality provision applies. As I understand it, the proportionality provision applies to rationing mechanisms, where you are going in and interrupting contracts which are in place. You could say you would not approve new contracts, subject to the requirement that Canadian demand was being satisfied.

I think you might be able to ask the general counsel to the National Energy Board. I would not want to offer an interpretation of law, but my understanding would be that, as a policy matter, this applies to overturning contracts that exist, that the National Energy Board could say, "We won't permit future new contracts to occur because we are concerned about the long-term security of supply of conventional oil from western Canada."

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Mr. Neumann: So it would be in the American interest, once this free trade agreement is entered into, to establish as many long-term contracts for Canadian energy as it can secure.

Mr. Smith: It may well be in the American interest and there may be no shortage of Canadian companies that are--

Mr. Neumann: Willing to supply them.

Mr. Smith: That is right.

Mr. Neumann: But in so doing, they may at some point jeopardize Canada's future.

Mr. Chairman: Why would it not say contracts if it meant contracts? It has been interpreted as even including reserves.

Mr. Smith: It implies government restrictions or rationing mechanisms. This is where the government is coming in and saying, "This private arrangement concluded in the marketplace is being overturned."

Mr. Mackenzie: I think we are on a vital area here. I am wondering why we got this material if there is no accuracy to it as to some of the other propositions that have been put to us. In the summary of concerns by the

Ministry of Energy before this committee just two or three days ago, it said: "Security of Canadian energy supply is also threatened by this agreement. The Canadian government's ability to ensure long-term security of energy supply for Canadians would be greatly reduced. In the event of a supply shortage or a need to conserve finite resources, Canada would be required to provide the US with proportional access to its diminished energy supplies."

More specifically, one shorter paragraph on the natural gas section of the same brief, because I think it deals with what we are discussing, says: "The National Energy Board's October 1986 report, Supply and Demand for Canadian Energy 1985 to 2005, projected that Canadian natural gas demand could exceed deliverability between 1998 and 2002, even if no further exports are allowed beyond those already authorized."

To me, that just underlines why this area is so key and why I am not at all sure--and you may be right; what we have here may be wrong--about the interpretation you are giving us in terms of what we would be required to supply.

Mr. Chairman: It may be something that will end up being settled by a dispute settlement mechanism.

I should point out to the committee that the Ontario Natural Gas Association, which was scheduled to appear in front of us Thursday, has asked for an adjournment. They hope to go on Thursday to Ottawa, where they are going to have an explanation given to them.

Mr. Morin-Strom: On the same point, I noticed that on page 148, under article 909 of the agreement, we have the definitions of restriction and total supply. It says, "'Restriction' means any limitation, whether made effective through quotas, licences, permits, minimum price requirements or any other means.... 'Total supply' means shipments to domestic users and foreign users from (a) domestic production, (b) domestic inventory and (c) other imports, as appropriate."

The restriction seems to be a wide-open definition, although it does seem to me to imply involving government. Total supply obviously means domestic production plus imports. But the way I would interpret that is, if we were looking at imports and we were using a case such as we were talking about where we are producing, say, 1,000 barrels and shipping 700 to the United States, and if we were in a case where we were importing 1,000 barrels, the supply then would be the 1,000 we were producing and the 1,000 we are importing.

However in that situation, if what was cut off was not our production, but the imports were cut to zero because the Organization of Petroleum Exporting Countries had put a restriction on exports of oil or the oil prices went astronomically high on the world scene, we would see a reduction of 50 per cent in our supply under that definition. However, we would still be obligated. We would be cut off from oil coming in. We would have to make up those 1,000 barrels that we were importing for our own needs. We would obviously want to do that out of our own domestic production, but we would be obligated to continue to ship a percentage of our domestic production to the United States rather than be able to use it to replace imports which perhaps were being restricted by OPEC or much higher world prices. So I do not see a benefit.

Mr. Smith: That is right. In essence, what it comes down to is, in the event of any major short supply of an emergency nature, in one third of the diminished supplies, the diminution factor, you would at least have to share the shortfall with the United States. You could not impose all of the shortfall on the US customers. The proportionality would be preserved between the reduction and consumption.

Mr. Morin-Strom: But if we lost 1,000 in imports, we would obviously have to make it up from internal sources to continue our economy, and we would still have to provide the United States with additional barrels besides.

Mr. Smith: Additional barrels besides the 700?

Mr. Morin-Strom: We would have to continue to supply the 700, but we would have to double our production in order to produce enough, which we obviously have the capacity to do internally, but we may not even have the capability to do that.

Mr. Smith: That is right, but in the kind of situation you describe, this provision would not apply. It would be subject to the provisions of the international energy agreement, which in fact require that if you have a shortfall in consumption through the whole OECD region, countries that were previously net exporters of energy products have to expand their exports. Instead of having just a proportional reduction of our exports to the United States, we would be obliged to increase our exports to the United States under the international energy agreement.

Mr. Mackenzie: Which we might not want to do, given some of the predictions on the supply in some areas.

Mr. Smith: That is right. There are two types of problems here. One is the problem of an emergency short supply because of a nuclear war in the Middle East or something of that sort. In that situation, it is quite clear that the international energy agreement would apply. Those restrictions are more binding than under the Canada-US agreement.

The more interesting question is the one that was raised here earlier about how we could implement longer-term restrictions to conserve our exhaustible resources. I would be prepared to explicate the text with the various lawyers as time permitted, but in my view, you could, as long as you did it gradually. That is why there is this three-year moving average. You have to have a program, say, over a 10-year period to phase out exports to the United States to zero. You could not wake up Thursday morning and the National Energy Board says: "We have a new study in. We were previously completely wrong in our estimates of what the reserves were for oil in western Canada. We are going to have to stop all our exports to the United States to ensure that we have Canadian oil for the next 20 years."

What this agreement says is that you cannot do it in a precipitate fashion like that. Over a period of time, you could phase down your exports to the United States and they could go to zero, and you could maintain restrictions from the point of view under article 20 of the GATT for conservation of an exhaustible resource.

Mr. Haggerty: Until the security comes in.

Mr. Neumann: How long would it take you to do this?

Mr. Smith: I think you would have to work through a number of hypotheticals.

Mr. Mackenzie: If it involved trying to institute energy conservation in Ontario instead of the additional production of new nuclear plants, you would find out that it is a very gradual process and a very slow process to sell.

Mr. Chairman: I think we have exhausted this now. Perhaps we could let Mr. Smith finish his presentation.

Mr. Neumann: I think it would be interesting to find out if the Americans have the same interpretation.

Mr. Chairman: Yes, indeed it would. We will, eventually.

Mr. Smith: That is right. On a general point of interpretation, though, I have been struck on a number of occasions by how interpretations can be given to a particular provision of the agreement out of context with either the trade agreement as a whole or the GATT, with which there is a lot of interrelationship in terms of the legal provisions and obligations.

It may be that Mr. Pelissero is right. It may be that the dispute settlement mechanism will interpret some of these provisions in somewhat greater detail as cases arise. In most cases, there is a more or less correct answer that I think many of the people who are trade specialists on both sides of the border would agree to in terms of what the agreement means and what it implies, but that certainly is not clear from some of the commentaries that occur. These provisions are easily misconstrued.

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I was going to make one further comment and I think I can make it fairly briefly. The Department of Finance released a study about a couple of weeks ago of the potential economic benefits of the trade agreement with the United States. They came up with a measure of about 2.5 per cent of gross national product as the potential gains for Canada.

I would like to make a couple of observations about the numbers that one sees bandied about in terms of jobs and so on. As an economist, I think it is not appropriate to look at a trade agreement as necessarily producing a lot of jobs. The kind of study that the economic council did when it produced a figure of 350,000 jobs is quite correct in its own terms. They are assuming an economy of about a year ago, with relatively high unemployment. When the gains of trade flow through in terms of higher productivity, higher specialization, and you get some modest increases in wages and substantial increases in employment, which might be quite plausible under those circumstances.

A different set of circumstances could be that you are in an economy that is operating at a higher level of employment, in which case you would still get the same gains from trade, but the main benefit would be in terms of higher real wages, not increased jobs.

So I think the figure that is more robust in a variety of circumstances is the overall benefit to the economy as a whole, a 2.5 per cent gain by the time the agreement is fully implemented. Of course, 2.5 per cent of GNP seems like a small number, I suppose, or at least 2.5 per cent seems like a small number, but 2.5 per cent of GNP is a very substantial number to the economy as

a whole. What that would provide is a basis for real wage growth of an equivalent amount. I think it is important to keep in mind that there was a period of about five years in the early 1980s when there was no real wage growth in the Canadian economy. Real wages were essentially stagnant for a long period of time. Real growth over 10 years of 2.5 per cent may not be a panacea for all our economic problems, but over the next 10 years we might be quite happy to have real income growth of 2.5 per cent.

I thought it would be interesting to compare this number, which was developed from economic analysis by the Department of Finance and which was not terribly well received in the media, with the experience in the EFTA countries. I did not do the computer general equilibrium analysis the Department of Finance did, I simply looked at the EFTA countries and the members of the European Community, and I looked at the period from 1973-83.

From 1973-78 is when the EFTA countries phased in their bilateral free trade agreements, eliminated tariffs for trade between EFTA and the European Community. I allowed a total of 10 years; the agreement is fully phased in and everybody has adjusted. Over that 10-year period, the real growth rate in the EFTA countries was about half a per cent higher per year than in the European Community, or about 30 per cent higher. Your real growth of about 1.5 per cent per year. You have real growth of about 1.5 per cent per year in the European Community and a little over two per cent in the case of the EFTA countries. So over that 10-year period, the real growth in the EFTA countries was about five per cent higher than in the European Community.

It is hard to know how much of that five per cent additional real growth in the European EFTA countries is due to the free trade agreements that they concluded or to other factors that may have affected their economy, but there is certainly some reason to believe that a significant portion of that five per cent in additional real growth was due to the free trade agreement.

On the basis of that very rough evidence, I suggest that provides some corroboration for the number that one obtains from the Economic Council of Canada or the federal Department of Finance, which generally produced estimates of the benefits of this agreement of about two per cent to three per cent of Canadian gross national product.

That was the last concluding observation I was going to make about the economics of the agreement.

Mr. Chairman: Thank you very much, Mr. Smith. I have to place on the record that Mr. Pelissero indicated that perhaps when you were talking about the growth in work for customs officers, that was where the 120,000 jobs were going to come from. That may be a little cynical.

Mr. Haggerty: That is over a five-year period, though.

Mr. Chairman: I think it would be preferable to have Mr. Stone give his presentation and then I do have a list of questioners.

Mr. Stone: With your permission, Mr. Chairman and members of the committee, if this is of interest to you, I would like to deal with the relationship of this bilateral agreement with the General Agreement on Tariffs and Trade. Then, second, we might look at the institutional elements under the bilateral agreement, including the provisions for dispute resolution.

Just for the record, I will say what Murray said, that it is a great pleasure and honour to be invited to come to your committee. I hope we can be helpful. As Murray points out, our institute has generated or turned out quite a large volume of research work on this, including the proceedings of a number of conferences on the subject of the bilateral agreement, as well as the multilateral agreement.

The bilateral trade agreement is not an alternative to the GATT. Canada and the United States remain members of the GATT. In fact, the GATT will remain a major trade agreement between Canada and the United States. The bilateral agreement, in that sense, is a supplementary or an important addition and maybe it adds twice as much as there is in the GATT, but the GATT is still there. There are certain obligations between Canada and the United States under the GATT that will certainly remain. The bilateral agreement, when you read it, is riddled with cross-references to the obligations of both countries under the GATT. That is point one.

Point two, as Murray has said, is that the Canada-US trade agreement is almost fully--and maybe it is fully--compatible, fully consistent with the obligations of Canada and the United States under the GATT as far as I can see. Maybe one can quibble about one or two provisions that other countries might question, but the bilateral agreement is as consistent, and probably more consistent, than any of the other free trade agreements that have been entered into and operate and continue to operate in Europe and elsewhere.

Of course, the basic GATT rules are twofold under article 24 of the GATT. I make mention that article 24 gives countries the right to form these free trade agreements. It is not something you have to ask for or bargain for. When countries sign the GATT, they have as a right the option of forming free trade agreements. There are two basic rules.

One is that the countries which were members of these agreements have to eliminate substantially all, that is, most tariff and other trade barriers between themselves. Second, they cannot at the end of it have higher restrictions or barriers to trade with third countries than they had before they entered into the agreement. I think Canada and the United States will meet those two basic tests.

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It is true that Canada and the US are not removing all their internal barriers. Agriculture is a notable exception. There are other exceptions, too; some of the so-called cultural goods or industries are not covered by the agreement. In agriculture we will still, on both sides, have the same kinds of restrictions on dairy products. On the Canadian side, we have restrictions on eggs, poultry and turkeys as before and on wheat, oats and barley, at least until the subsidy systems of the two countries come into equilibrium.

On the American side, they will still have those restrictions on sugar, which are becoming even more restrictive, but the GATT says you can have those restrictions on agricultural products if you have supply management schemes that restrict production. The Canadian government has always said, "Our restrictions on imports of agricultural products, because those programs also restrict production, are consistent with the GATT." No one has ever seriously challenged that. On the American side, they are a bit weaker, but they did get a waiver from the GATT way back in 1954, which allows them to have import controls on sugar, for example, even when they do not have domestic controls on production.

What happens as and when the agreement comes into effect? The practice is that the two countries would officially notify the director-general of the GATT and send him a copy of the agreement. He would put together a working party, which would provide an opportunity for other countries to question Canada and the US about any feature of the agreement they wish. They can complain about it if they want to, and they probably will. Even if Canada and the US say, "We are fully consistent with all the obligations in the GATT," other countries could still say: "Yes, you may be, but we have a problem here or a problem there. Please do something about it." That would be normal. That has happened every time.

I was on one of those working parties when we looked at the European Community way back when, in 1958 I guess it was. Canada, the US, Japan and others raised many objections to the community's common agricultural policy and its arrangements for the association of these ex-colonies with the community under preferential trade arrangements and other provisions of the common market too.

That is the kind of thing that happens. It is unlikely that the GATT contracting parties would ever say to the United States and Canada, "Yes, your agreement is perfectly consistent with the GATT and you are obeying all the rules." They do not operate that way. They have not yet said that about any of the other free trade arrangements, with one possible exception. What they are likely to say is: "We have some problems. Please take note of those. We have our reservations. We reserve all our GATT rights."

Canada and the United States would say, "We think we are perfectly consistent with all the rules," and they would leave it at that. Of course, they have a point too, because we will not know until 10 years hence whether all those tariffs are actually going to be removed. The two countries have said they are going to be, but the other countries would say, "We will wait and see." That is the way that process will operate.

As Murray has pointed out, both countries retain their right to operate independent commercial policies. This is not a common market. Canada and the United States in the Uruguay round or in another context could perfectly well enter into deals within GATT, even outside GATT, to reduce individually their own tariffs or other barriers and make other arrangements with third countries. The other country has no grounds for complaining, although I think there is a provision in the agreement that says we should consult about it and we should tell each other about it in advance. Canada is perfectly free to participate fully and independently of the United States in the Uruguay round or other context.

In practical terms, once--and I think one should think carefully about this--you give Canadian exporters a preferential position in the US market and once the American exporters get a preferential position in the Canadian market, neither of them are going to be very happy if they see those preferences eroded by deals that the other country makes to open up the same market to third countries. Inevitably, they will complain and say to the Canadian government: "Will you please intervene in Washington and tell them not to reduce their tariffs? We will lose our preferences." That may well be a result.

On the other hand, if Canadian producers find that our import tariffs from Japan or any other country are higher than the American tariffs, there is going to be pressure by the Canadian industry to get their tariffs down at least to the American level, and maybe below, so that they are competing on a level playing field as far as tariffs are concerned.

Second--I guess we all hope and expect that the purpose of this is to become more competitive--if Canadian manufacturers or other producers do become more competitive, they are less likely to call for continued protection by tariffs or in other ways by the federal government.

I would still like to see both Canadian and US governments make a pretty resounding statement of their intention to play a full and constructive role in the Uruguay round negotiations so that the bilateral agreement does not assume the dominant role in the commercial policies of the two countries. Both governments have said that, but they have said that in Geneva; they really have not said that in the context of the bilateral agreement.

Finally, some of the elements in this bilateral agreement, one could say, are sort of liberal-oriented, outward looking and all that. Those elements could provide a very useful model or precedent for both countries to try to get better rules of the game in the GATT and to get other countries to liberalize their trade. It really does set a rather major precedent in terms of trade liberalization, in terms of tariff removal and setting rules. One may have reservations about some of those rules, but they are a step forward rather than a step backward, in general.

I think everyone I know who is working on the GATT negotiations and studying that area thinks this bilateral agreement will, in fact, give a nudge forward to the GATT negotiations in Geneva.

I could stop there if there are any questions on that particular aspect of the agreement.

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Mr. Chairman: Perhaps you could clarify your last statement. A nudge forward to the dispute settlement?

Mr. Stone: Yes, including that. But I was thinking mainly in terms of the reduction of tariffs, the removal of tariffs, because a large element in the Uruguay round is going to be focusing again on the reduction of world tariffs. Second, although the agreement has not done a heck of a lot to liberalize trade in agricultural products, there is a clause in there to say that both countries undertake to move forward to pressing GATT for a liberalization in world trade and agricultural products. Of course, that is one of the major areas of world trade restrictions and one that Canada is working hard to reduce to get better access to world markets. Those are two areas.

We can go into the area of dispute resolution, if you like. The provisions here are a little stronger, in several ways, than the present GATT provisions. Both Canada and the United States have made proposals in Geneva for strengthening the GATT provisions so that we end up with a better system for dealing with our trade disputes with the Japanese, the Europeans or other countries.

Mr. Pelissero: Does GATT have a definition of what a subsidy is?

Mr. Stone: It does not have a very good definition. They have tried, in the Tokyo round and in other contexts, to define what a subsidy is, without really reaching a very precise or a very useful definition. That means Canadian trade law and American trade law in effect make their own definitions of what a foreign subsidy is.

Mr. Pelissero: Is it any concern that we are going to try to take five to seven years to try to define what a subsidy is and what happens, I guess, in between time in terms of potential countervail actions by the United States against Canadian trade practices?

Mr. Stone: Yes, sir, I think it is a major concern. The Canadian trade negotiators, as I understand it, really tried hard to reach an agreed definition--more than a definition, an agreed system of rules on subsidies as they apply to bilateral trade, as well as the use of countervailing duties as they apply to subsidized imports or exports that damage or injure domestic producers. That did not succeed and I guess a whole lot of people are disappointed about that, although I have also heard that if we had made a deal, a lot of Canadians might have been pretty startled at the constraints that probably would have emerged on the ability of governments in Canada to use subsidy programs.

Mr. Smith: Two points: First, in terms of picking up on some of Frank's specific comments about the negotiations, I am inclined to do a bit of marketing here again. In this particular conference that we had in Toronto in October, Simon Reisman not only spoke to the conference but stayed through the day and pitched in during the discussion. One of the points he made was that, in the course of the bilateral negotiations, when Canada and the United States were trying to develop subsidy rules, the US negotiators were not only trying to develop subsidy rules in terms of where the law in Canada and the United States now stands, but there was also political pressure on the negotiators to try and anticipate some of the provisions that are in the proposed omnibus trade bill.

I think the judgement the Canadian negotiators reached was that, by trying to conclude that particular negotiation at this time, from a Canadian point of view, we might not necessarily be making progress. I guess my personal view on that matter is that five years from now might be a much better time to finish that negotiation with the United States. I think the US trade deficit will decline in the years ahead and I think it will be possible over the next five years for both countries to say, "We are going to tailor our trade laws, at least as they apply to each other, to remove some of the protectionist provisions in the trade laws that we have in each country." The trade laws between the two countries are really quite similar.

Frankly, I do not believe that, in the course of that negotiation, which is likely to start four years and six months from now, we would go the route that the European Community has gone of trying to get a regime to discipline the use of domestic subsidies. That was the kind of approach the negotiators were looking at, an agreed set of subsidy rules about what types of subsidies were acceptable and what were unacceptable, and given that, then there would be no countervailing duties between the two countries. The quid pro quo was that we would have to agree to give up certain types of subsidy programs. It would no longer be the situation as it is now where the countervailing duty law acts like a speeding cop. You can do whatever you want in terms of subsidies, but if you infringe the countervailing duty law, you are subject to a speeding ticket.

I do not believe that Canada and the United States will go that route. I think, instead, the route that will be pursued, and is more likely to be fruitful, is one of negotiating incremental changes in the antidumping and countervailing duty laws to make them less restrictive as they apply between our two economies.

Mr. Pelissero: I guess it rolls into the next area, the dispute settlement mechanism, in terms of your taking five to seven years to try and define what a subsidy is. The best that we have been able to determine we have obtained from the dispute settlement mechanism is simply reviewing if the United States, in fact, has applied its laws fairly, not whether the law has been fair or not. I do not think it is a great consolation to Canada in terms of the two main objectives by the Prime Minister going into these negotiations. One was, we are going to secure access to a larger market, and the other was, we are finally going to get a "binding dispute settlement mechanism."

If you base whether it is a good deal or a bad deal on only those two points and leave everything aside, on both of those points, we lost. We did not gain on either of those two. People would argue that we might not have got what we wanted, but we went further than maybe where we are today. I guess I just do not accept that as a good mechanism for deciding whether this is a good deal or a bad deal.

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I direct the second question to Mr. Smith. In terms of people, for example, yesterday Donald Macdonald said you cannot take the figures of either a 300,000 job gain or 120,000 job gain and judge the deal by that. You want us to judge it quantitatively by a 2.5 per cent growth in gross national product. I guess I am becoming confused as to how we should be judging it. We have one set of experts in here telling us, "Trust us, take a leap of faith," and another set in saying, "We're not exactly sure, if you get economic factors, of the change." Even in the 2.5 per cent figure, I am sure that if some economic factors change, that 2.5 per cent does not remain relevant any more either.

How would you judge, or by what quantitative judgement would you say that this is a good deal or a bad deal? Again, you may end up saying, with reservations and a whole lot of suppositions, it may be a good deal under a set of circumstances.

Mr. Smith: Speaking very personally, and as someone who has been involved in these issues from a variety of contexts over the years, I guess I think about it in terms of what the economic implications are and what the potential gains from trade might be. The computer models the Department of Finance and the economic council have run and the number they have come up with is about 2.5 per cent of GNP as the long-term gain of the Canadian economy, which is very consistent with all of the economic analyses.

Mr. Pelissero: But computers told them to sell on October 19 as well.

Mr. Smith: That was the right decision. I shifted into bonds in August.

I think those long-term gravitational forces on the economy can be gauged. I think there is a lot of short-term volatility that occurs in any market, and certainly in the economy as a whole, that is very hard to gauge. That is why I cited, for example, the experience of the EFTA countries over the whole decade 1973-83. That was a very difficult decade from the point of view of many of those countries. They had less growth perhaps than they had experienced during the 1960s, but compared to their European neighbours, the smaller countries in EFTA, when they negotiated the free trade deal with the community, did have substantially better economic performance over that

period. I cannot say for certain that all of that five per cent gain in GNP was due to the free trade deal, but some portion of it was.

In our modern industrial economies, finding policies that increase economic growth is difficult. We could think of other policies that might increase economic growth. We could reduce the federal budget deficit and have Canadians invest more in capital formation and that might make Canadian GNP two or three per cent higher in 10 years' time or 20 years' time. But it is hard economically and it is hard politically to do that, to make those kinds of policy changes.

I think the economic consequences of it are important, but in terms of evaluating the specific terms of the deal, I guess I am not as inclined as some might be to judge it against the heights of rhetoric which have emerged over the last two or three years on this issue. I am much more inclined to get out my green eyeshade and ask: "How does this stack up against the bilateral trade deals that the EFTA countries got with the European Community? How does it compare with the GATT in terms of the dispute settlement provisions and so on?" On that basis, I think you have to conclude that it is a pretty reasonable deal and probably, in some important respects from a Canadian point of view, a better deal than those other arrangements.

To go back to your question of this issue of subsidies and countervailing duties, I would also say that I think the definition of a subsidy that has been in the US and Canadian law up until a year or two ago was not really a bad definition. Frank is quite correct, the international agreement, the GATT itself, and the subsidies code are very ambiguous on the question of what is a subsidy.

In fact, the US and Canadian practice has had a narrower definition than might be rationalized under the GATT or the subsidies code. The problem for Canada has been that the drift in the United States interpretation and definition of "subsidy" has all been in one direction. They keep broadening the definition unilaterally.

I guess the judgement that was made by the Canadian negotiators in this case was that if we can freeze the US law and what the US law is, not as it was interpreted in the softwood lumber case but as it was in terms of the 1979 Trade Agreements Act and the whole administrative practice and the judicial precedents since 1979, it is not such a bad law. We have, in essence, the same law here in Canada. The key question in evaluating this agreement, and we do not know the answer to it yet, will be what happens to the omnibus trade bill and how the provisions of the omnibus trade bill will interact with the provisions of this agreement.

Our institute hosted a conference in Washington jointly with the Institute for International Economics the week before last. The minister from Canada who came down was Barbara McDougall. She said, "We would like an exemption in the omnibus trade bill from all those provisions as they apply to Canada." There were a lot of staffers there. I do not know what will happen, if they will take that back.

Mr. Chairman: When we were there last year, many people suggested it could have been part of the free trade agreement if we negotiated that.

Mr. Smith: Actually, it is not part of the free trade agreement. The question will come in the implementing legislation that goes forward. You are

going to have to look at the omnibus trade bill, if there is one. Second, you have to look at the implementing legislation.

You mentioned October, Black Monday. I take some comfort from Black Monday because the stock market crash gave Congress considerable pause in moving ahead with enacting the omnibus trade legislation. There is still some momentum, but there is not the same steam behind the omnibus trade bill in Washington that there was six months ago. I hope that the US trade deficit starts to contract over the months ahead and really disappears and just slides off the congressional agenda through sheer inertia. How that will play out, I do not know, and I am sure no one knows.

Mr. Chairman: In accordance with my undertaking this morning, I am going to give Mr. Pelissero and the witnesses a total of three minutes on this next question.

Mr. Pelissero: This is a different area in terms of other jurisdictions that have free trade bilateral agreements. Obviously, jobs are going to be in transition. What kind of government support has there been vis-à-vis retraining and structuring in either the European or other areas?

Mr. Smith: In a real nutshell, the experience that I would say is the most relevant is the free trade deals between the European Free Trade Association countries and the European Community in the 1970s.

Mr. Neumann: Was there labour mobility between the two?

Mr. Smith: No, none. There is with some of the EFTA countries, Sweden, Finland; the Scandinavian countries. But there is no labour mobility between the EFTA countries and the community.

They eliminated all their tariffs in five years, from 1973 to 1978. It was a pretty difficult period in Europe, the first oil shock and very slow growth. The adjustment problems were surprisingly slight. There were not big shifts from one industry to another. But I think it is fair to say that at least in some of those economies, there is a much more active basis of adjustment policies on an ongoing basis than there is in the Canadian economy.

The Swedish economy, for example, puts a lot of resources into manpower training and adjustment, a much higher percentage of resources than does the Canadian economy. They do that all the time, so they do not try to distinguish whether the adjustment is due to free trade or because of technological change or because the Asian producers are becoming more competitive. They put those resources into adjustment.

Given those policies, the result has been little adjustment pressure on the smaller EFTA countries when they concluded their free trade deals with the community.

Mr. Mackenzie: I take it, Mr. Smith, that when you express your concern about the heights of rhetoric, you are referring to that great free trade supporter, Mr. Reisman, and his analysis of Nazism, of course, and the opponents of free trade.

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Mr. Smith: The very conference.

Mr. Mackenzie: Let me raise with you the study that you were suggesting or using and the modest gain of 2.5 per cent. I am sure you are aware that when the Finance people were before this committee, they made the argument that that gain was based on a further difference in our dollar of as much as 3.5 cents over five years--I forget the period--a figure that threw some of us as to just how this would be the case entering into such an agreement. In fact, if our dollar increased, which seems to be the effect at the moment, although I am not sure how much it relates to trade discussions around the world, there might have been a negative reaction to it.

I raise this position with you simply because you also indicated that you thought there was the possibility of better wages and better growth. I did not have an explanation, until one of our witnesses this morning, as to why they would assume a further depreciation of 3.5 cents on the Canadian dollar, which gave us that 2.5 per cent growth rate. One of the witnesses this morning indicated that it was probably because there would be difficulties in the early part of such a trade pact.

Now, if he is right, it certainly is an indication to me that they are expecting problems in terms of the benefits, work, wages and jobs that Canadians have, because he went on to say that as we worked this out we would become more competitive. But that does not sound, at least in the early stages, like improvements in wages to me, and I am just wondering if you recognize the argument that was given to us, as that was the basis for this modest growth, a further depreciation in our dollar.

Mr. Smith: Yes, I can certainly understand. I have worked with a number of models in a variety of contexts, both the general equilibrium type of models, which try to estimate what happens in a five- or 10-year time frame, and the sort of shorter-term macroeconomic models, which are more commonly used for forecasting. There are many variables that enter into those models and, depending on your judgement about a variety of parameters, the results will vary, but some results vary much more than others. You can run these models with a variety of exchange rate assumptions, and it is very difficult--

Mr. Mackenzie: Hang on for just a minute, Mr. Smith. Here we had it presented to us, and you have used it also as part of your argument, as one of the studies that indicate this kind of growth potential, modest though it may be, or whether somebody says it is not modest. But we also found out that was the only model, in effect, that they used in that study. They did not--at least, they did not seem to, and my colleague and others asked them the question, "Did you do the same model based on our dollar appreciating rather than a further 3.5 per cent difference?" and they had not; so I am wondering really just how valid that study is.

It would seem to me that if you were really doing comparisons and looking, you would at least have wanted to know what happens if our dollar goes up as well, because they certainly did acknowledge that it probably would have meant a totally different picture in terms of that study.

Mr. Smith: I would suggest to you--and this is just a personal judgement based on my experience with working with models of this sort--that you could work with a range of exchange rate scenarios, and the gains from trade that are calculated by this model, the 2.5 per cent of GNP, would be very robust under different exchange rate scenarios.

You have to ask the question, however, why is the exchange rate different under different scenarios? It might be different for a variety of reasons. It might be different because the Bank of Canada has suddenly got religion about controlling inflation and decided to pursue a more restrictive monetary policy than is the case in the United States, in which case you would put pressure on the economy through a variety of sectors. The Canadian exchange rate may be higher against the US dollar because something happens in world commodity markets.

Mr. Mackenzie: Are we looking at all of this when we use one and one only model that gives us the figures that obviously some people wanted?

Mr. Smith: My judgement would be that the 2.5 per cent number would be robust under a large number of scenarios in terms of what happens to the external environment, the Canadian economy and the exchange rate.

Mr. Mackenzie: So you also accept that we are probably looking at a further depreciation of our dollar by three and a half cents.

Mr. Smith: No. I am saying that the 2.5 per cent gain would be robust whether or not you had further depreciation or appreciation during the adjustment.

Mr. Mackenzie: OK. You do not agree with the feeling or the argument or the answer then that if there was an appreciation of our dollar, that study would not have been--they did not use these words--worth very much.

Mr. Smith: No, I do not think that would be used.

Mr. Mackenzie: I think this outlines some of the difficulties we have, especially when we get only one or two models that are used. It is something like comparing the deal we are looking at entering into between Canada and the United States with the European Community and its traditions, its compact nature and the fact that many of the nations are of the same size and power in that alliance, although there are some smaller ones. I do not think there is any comparison. I think it is a poor example.

I do not want to get sidetracked on that. I have one final argument that I want to raise with you and it deals with what is absolutely essential, as well, to this agreement. Energy and then probably the dispute settlement mechanism and the US refusal to give up countervail are the three key areas in the whole thing to me that give me real problems, but I have here a one-page analysis of the dispute settlement mechanism. I would just like to know whether or not you are in agreement with it.

It says: "As far as legislation is concerned, the dispute resolutions panel's powers are limited to issuing declaratory opinions about any changes in antidumping or countervailing duty statutes." That is something that was mentioned by one of my colleagues previously. "If the opinion of the panel is that a proposed change in US law is contrary either to GATT rules or the objects and purposes of the free trade deal, and Canada and the US fail to agree on a compromise, Canada has the option either of retaliating or of terminating the deal."

In plain English, it means that if we win at the appeal and the US refuses to go along with the panel's view, we can either retaliate or terminate the whole deal. In effect, the deal does not give us anything we do not already have.

"The part dealing with the administration of trade laws is, if anything, even weaker. The text of the preliminary transcript speaks for itself: 'A new binational panel would replace judicial reviews in both the US and Canada.'" The question is raised here: "Anyone who knows anything about administrative law in Canada and the US knows that judicial review is a very limited avenue of appeal from the decisions of administrative bodies. The appeal is strictly limited to questions of interpretation of law and, in particular, the question of whether the administrative body acted within its authority in making its decision."

It goes on from there, but it is just--

Mr. Smith: Let me comment. I think, first of all, that list of points simplifies what is a very complex and subtle process in a way that is quite distorting, but it is wrong on one key point in particular and that is, at least on the US side, the process of judicial review under the trade laws is very extensive. The standards of judicial review in the two countries are quite different.

On the Canadian side, it is more or less fair to say that it is only abuse of procedure or denial of natural justice that would give rise to the overturning of a decision by the Canadian courts. In fact, very few cases have been overturned by the Canadian courts and they were invariably remanded back to the administering authorities, but in the case of the United States, the standard for judicial review under the trade laws is very broad. They not only look at whether they followed the appropriate procedures, but they look at all of the evidence that was used in the proceeding. They assess whether the evidence was properly used in reaching the conclusion that was reached or in applying the methodology in terms of calculating the subsidies or dumping provisions. That may be not inaccurate in describing in a summary form the situation in Canada, but it is not at all accurate in describing the situation under the US law as it applies to judicial review.

Mr. Stone: May I just add there that this provision for termination of the agreement, which is, as you suggest, a pretty drastic and maybe unrealistic option down the line somewhere when both countries have removed a lot of their tariffs and so on, applies to changes in the antidumping and countervailing duty systems of the two countries. It is separate from the judicial review aspect.

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If the United States, for example, does change its antidumping and countervailing duty system, in the first place it has to specifically--and it is supposed to anyway--name Canada as being subject to the new rules. Second, Canada can ask for a panel to review just what has happened and what the meaning of this is.

Mr. Mackenzie: Does that give you a sense of security?

Mr. Stone: No. I suppose it is better. One can say that it is better than what we have now.

Mr. Chairman: Is that what you were envisaging in your own earlier papers though? Was it not? It is a far cry from what you were envisaging.

Mr. Stone: Yes, it is. I--and others too--was hoping for something that went beyond that. I think we have to look at that provision in the light

of this obligation of the two countries to work out a new system of binational rules--

Mr. Mackenzie: Seven years to negotiate.

Mr. Stone: That is right. Five to seven years from now. One can argue, you know, I thought initially that seems like quite a long time, but, as Murray points out, this year and next year are probably not the best times to try to design new rules and that five years or even four years from now might be. Five years as a period is the outside or seven--it could happen before then. If I could make a suggestion, it would be that committees like your own should take an interest in urging that they get on with the job and not--

Mr. Mackenzie: It is almost like you have shot yourself in the foot in the meantime though, I would much rather have known what those subsidies were before I am going to enter into anything that has the potential of this agreement.

Mr. Stone: Understandably.

Mr. Chairman: I know the message when you say it probably will not start for four and a half years, but it is also questionable what we need to bargain at this stage to get interest on the other side.

Mr. Stone: Yes.

Mr. Mackenzie: Anybody who has negotiated and who thinks we are going to sit down for a five to seven-year period, or whatever period it is, and do some trading with the Americans, and I have respect not in negative terms in terms of the US or their people, but anybody who thinks we are going to sit down and not do some trading off in terms of what we establish as subsidies and not subsidies is out of their cotton-picking mind. We have a lot of things that are unique to this country and different.

Mr. Smith: I think there is perhaps more agreement amongst the trade policy community on what constitutes subsidies than most people realize. The problem is when those issues are cast in a broader--

Mr. Mackenzie: It will be a political and not just a negotiation because of the whole makeup of the US, the various pressure groups in the states and the senators and the power they have. What you cannot get away from is that you are looking at a political decision probably even more than an economic or trade decision in case after case.

Mr. Smith: There are two issues here. Whether it accomplishes it or not is a separate issue, but what the agreement seeks to do is insulate the decision-making process in terms of each country's antidumping and countervailing duty laws from the political process and stop the drift, which has been true on both sides of the border in terms of making those laws more protectionist. What it does not stop is the political right of either country to make them more protectionist, but then if they did so, they would be subject to the procedure that you described.

I guess my observation would be that looking down the road over the next five years, particularly if we have an 80 cent dollar or an 82 cent dollar, we may find that, as has occurred in times in the past, countervail is much less

of an issue between Canada and the United States, if you leave out the really bizarre cases, like the stumpage case, where the US was abusing its law. If you look at the conventional countervailing duty cases--

Mr. Mackenzie: They moved where we had free trade in effect.

Mr. Smith: Yes.

Mr. Mackenzie: We gave you some other examples.

Mr. Smith: That is right, but if you leave out the stumpage subsidy, outside of some agricultural products, it is very hard to find any product where the subsidies are more than one or two per cent of the value of the product. You find antidumping cases that have very substantial margins, because both countries have this sale-below-cost provision in their trade law. You do not even have to be dumping. You are just losing money; it is a downturn in the cycle and you can shut the foreign party out of the market.

I suspect the tradeoff will be that five years from now it may be that the United States is interested in the trade laws and is going to be concerned about Canadian antidumping laws. That may be the nature of the negotiation.

That has been the case in the past. In the Kennedy round, the United States was concerned about Canada's antidumping procedures and that is why we negotiated the antidumping code during the Kennedy round. I think you should not be--

Mr. Mackenzie: You are advocating that leap of faith.

Mr. Smith: No, I am not advocating a leap of faith. I have a more extensive view of how these issues are likely are to unfold.

Mr. Neumann: First, Mr. Smith and Mr. Stone, I would like to commend you on your highly professional, thorough presentations on a very important subject to our nation.

I would agree that, depending on the econometric models you develop, you can get different results. I was a little surprised to hear you state that the two and a half per cent gross national product growth over the period of 10 years would be, as you put it, rather robust no matter what other factors you would put in with respect to the currency values.

We heard evidence that there can be differences in models. For example, the chief economist of Ontario in his model did not allow for the fiscal expansion that would result from the reduction of tariffs as taxes, the stimulus that would result from that. His assumption was that the federal government, facing the deficit it is, would have to replace those taxes with other taxes. You might be interested to know that the Department of Finance federally assumed they would not be replaced. Part of the growth they projected was the fiscal stimulus from the removal of the tariffs. Have you looked at that aspect?

Mr. Smith: Yes, that is one aspect of their analysis which I happen to disagree with. I think they should have done it in a fiscally neutral context. I would be surprised if it made a significant difference to the overall calculation. In terms of the longer-term income tax, it may make a difference from year to year. Their rationale was that if you had a fiscal offset in terms of higher taxes or spending reductions, that is presuming it is equivalent to doing a budget: you are making some statement of policy.

My solution in that context would have been to do a variety of simulations, to look at it with an equivalent spending cut, with an equivalent tax increase, and make it fiscally neutral. If they had done that, they would have had a cleaner study. Other than that, it is a pretty solid study on technical grounds.

Mr. Neumann: I would like to raise some discussion on the question of the value of the Canadian dollar. I know from my personal experience in our community in Brantford that many of the industrialists we have and, indeed, a lot of the new ones that have located there with their eye on the American market, have viewed the differential between the Canadian and American dollar as an advantage. The decline over the last few years of the Canadian dollar has been a major advantage, perhaps more significant than the tariffs, for some of these manufacturers. I would agree with you that the resulting growth in the economy or lack of growth based on the differential on the dollar, say a higher dollar, would depend on what caused the dollar to go up or down.

I am going to make a couple of assumptions here. Let us assume that the freeing up of foreign investment in the country brings in an inflow of capital, that the opening up of energy markets encourages an increased sale of low labour content but high dollar value products to the US in terms of energy, and that there is an influx of foreign investment, let us say, in energy development projects. Would this not then push up the value or continue the current trend of the Canadian dollar going upward? What effect would that have on these manufacturers in my community?

Mr. Smith: I think you are quite right to focus on the broader factors that are affecting the adjustment in the Canadian economy. I think it is pretty clear from the point of view of the manufacturing sector that the adjustment process is going to be easier, is going to be more a set of pleasant opportunities than painful pressures if you do it in the context of a lower dollar. The pressures will be stronger if the Canadian dollar appreciates against the US dollar.

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Clearly, if the agreement precipitates an investment boom, particularly in the energy sector, that will put some upward pressure on the exchange rate, but I think you have to be a little bit careful in keeping the magnitude of these effects in proportion. In the mid-1950s, we had an energy boom of the sort you are describing. There was the great pipeline debate and so on. It became a political event as well. In 1956-57, we had capital inflows of about one to two per cent of gross national product associated with those major energy projects, which were very large relative to the Canadian economy of that day.

I would be very surprised if there were that much energy potential in western Canada today to have energy projects on that scale. You would be talking about building a couple of Mackenzie Valley pipelines, for example, relative to the size of the economy today. If we were to decide to build two Mackenzie Valley pipelines, one for oil and one for gas, at the same time and we were going to do it over four years, as fast as possible, that would clearly have an impact on the exchange rate. It would have an impact on the Canadian economy. I would not guess that even the most bullish people in the energy sector would expect that particular scenario to unfold, but we could get more investment in that direction.

A much more important factor affecting the Canadian exchange rate is the

conduct of Canadian policy, in particular, Canadian fiscal policy. The conduct of Canadian fiscal policy can have a much larger impact on the exchange rate than private capital flows. In the mid-1970s, the federal government decided to pursue an expansionary fiscal policy in order to insulate us from the world recession in 1974-75. The result was an increase in the federal deficit of about three per cent of GNP, and within two years we had a current account deficit that was about three per cent of GNP. Through government borrowing, we were getting a capital flow that was much larger relative to the whole economy than we had at the height of the pipeline boom, and the mineral boom as well, in the mid-1950s. Those kinds of capital flows that can easily swamp and normally do swamp are much larger than those that are associated with private capital flows.

I will give you a very specific example of this in terms of looking at free trade agreements and the experience relative to other countries. Both New Zealand and Israel, before they entered their respective free trade agreements with Australia and the United States, were running very substantial trade deficits with their large trading partners. Within three years of those deals--right up to the present in the case of the US-Israel relationship--they had a big turnaround in their trade performance. Clayton Yeutter likes to go around and say that is a clear indication that the small country benefits from a free trade deal. I happen to disagree with that assessment.

I think it is too simplistic. They did get some benefits from the free trade deal, but both New Zealand and Israel also pursued other policies that were directed towards liberalization of their exchange rate regime and reduction of their budget deficits in their economy. I think that is more true of New Zealand than it is of Israel. Israel has some continuing problems in that regard.

The point I am making is that probably the thing that would make the most difference, from the point of view of the average manufacturing industry in Ontario, to ensure that there is going to be a competitive exchange rate five or 10 years into this deal, will be a sustained reduction in the federal budget deficit over that period. That, I think, would dwarf all the other factors that might influence the exchange rate over that period.

Mr. Neumann: Thank you for your very thorough answer. I am conscious of the time, Mr. Chairman. I want to make a comment, not ask a question, because I know my colleague is waiting to ask some questions.

You mentioned that there was very little adjustment needed in the EFTA situation. Do you not think there perhaps would be greater adjustment needed in Canada, given the traditional relationship of our two economies with the branch plant scenario here in Ontario, the manufacturing centre of Canada?

Mr. Smith: Even in the case of Austria-EC, where Austria is right next to Germany and there are a lot of German multinationals with branch plants in Austria, Austria was a very high-tariff economy and went to free trade in five years, and there were surprisingly few adjustment pressures. During that period, Austria did pursue fairly responsible fiscal and monetary policies, so that it may have been that the government pursued an appropriate policy environment as a background. There was no obvious displacement in the Austrian economy, yet it is very close to what we observe between Canada and the United States.

Mr. Beer: My question has been covered.

Mr. Chairman: Before we finish, I want to read into the record from exhibit 16, which was filed on January 18, the American Embassy's Ottawa statement--I guess this comes from the US Trade Representative--as to what these energy provisions mean:

"The energy chapter includes: crude oil, petroleum products, natural gas, electricity, coal and uranium. The FTA provides for free bilateral trade, nondiscriminatory access to energy supplies and secure markets for exports.

"Both countries have agreed to prohibit restrictions on imports or exports, including quantitative restrictions, export or import taxes, minimum or export price requirements or any other equivalent measure, subject to very limited national security and short supply exceptions. If short supply actions are taken, the parties must share available supplies proportionately among historic users in the two countries.

"Both countries will eliminate restrictions on imports and exports of uranium. Canada will eliminate various practices that discriminate against energy exports to the United States. The United States has agreed to make a limited amount of oil from Alaska's north slope available to Canada, subject to the requirement that such oil be transported in US tankers."

I do not know whether that is enlightening at all. The words "historic users" may allude to your contractual analogy. You had asked for that, Mr. Neumann.

Mr. Neumann: Thank you. Mr. Smith, you have not touched on this at all, but it has been a subject before this committee. Great claims are being made by the federal government that this agreement is going to virtually wipe out regional disparities in Canada. Do you feel that those are anywhere close to being accurate?

Mr. Smith: I would be surprised at the claim that it would wipe out regional disparities. I would expect that most--

Mr. Neumann: The Prime Minister said, "Doesn't Newfoundland want the prosperity of Ontario?" Expectations are being raised.

Mr. Smith: Yes. I mentioned the heights of rhetoric earlier.

I would expect that every region of Canada would have opportunities under this agreement and would benefit. I think, however, if you could take the various models apart, you would find that much of the benefits in the longer term, after the adjustment had occurred, would accrue to the manufacturing sectors in Ontario and Quebec.

In fact, it would be very difficult to allocate the share of the gains from this agreement among the regions of Canada, but I would guess that the benefits to Ontario and Quebec might well be disproportionate.

Mr. Sterling: Do you think we will do much better in Ontario than they will in the rest of Canada?

Mr. Smith: Yes.

Mr. Chairman: On that note, we will call this very productive session to a halt. Mr. Neumann suggested it was a very thorough and professional presentation, and the chair echoes that. Thank you for your presence.

The Ontario Lumber Manufacturers' Association people are present. It has been suggested we take a short recess and that may be in order until four o'clock sharp, which is about two minutes.

The committee recessed at 3:58 p.m.

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Mr. Chairman: I should just mention to the committee that Mr. Stone indicated to me a concern he had that did not get raised during the course of the proceedings. It was the fact that, in the dispute settlement mechanism that has been created, the provinces will not have a role. We will not, in fact, be able to be a party to any discussions that are ongoing.

The next group we have is the Ontario Lumber Manufacturers' Association. Yvon Martel, president of the association, is with us, and also David Milton, executive director. We have a presentation that has been placed in front of you.

Mr. Martel, perhaps you would like to lead us through that, and then we will have some questions for you.

ONTARIO LUMBER MANUFACTURERS' ASSOCIATION

Mr. Martel: Thank you, Mr. Chairman. I will read through it.

My name is Yvon Martel. I am president of the lumber manufacturing company J. E. Martel and Sons Lumber Ltd. of Chapleau, a business that my family has operated continuously since 1950. My great-grandfather was in the lumber business, so I think I have a little bit of sawdust in my veins too. In this past year the company produced some 27 million board feet of lumber and some 36,000 tonnes of wood chips for paper production.

I am also president of the Ontario Lumber Manufacturers' Association, a position to which I was elected by my colleagues in the sawmill business in April 1986. The OLMA represents some 50 sawmills and lumber remanufacturing plants, all of which are under the association's quality control program. Our members, in the aggregate, produced in excess of 1.1 billion board feet of lumber in 1987, a volume of sawn wood that, for reference, will cover one square mile three and a half feet deep.

The opportunity to share our association's views on the Canadian-US free trade agreement before this standing committee is welcome. The softwood lumber manufacturing industry in Ontario has expanded considerably over the past four decades, a reflection, I believe, of the economic growth of the province and of our industry's ability to be successful exporters.

Since 1945, Ontario softwood lumber annual production has increased by over five times, from about 400 million board feet to over 2.2 billion board feet. The economic impact of this increase is visible in many communities in Ontario. In fact, many northern Ontario communities depend upon one or more sawmills as their principal economic generator. It is not too simplistic to say that in those instances, were the viability of the sawmill in jeopardy, so would be the community.

The expansion in the Ontario lumber industry these past 40 years is paralleled by similar activity in Quebec, Alberta and British Columbia, the

other major Canadian lumber-producing provinces. The total Canadian softwood lumber production this past year was about 20 billion board feet.

Over this same time frame, the annual production of softwood lumber in the United States increased from about 20 billion board feet to over 37 billion board feet. The consumer demand for softwood lumber in the United States peaked at about 43 billion board feet in the mid-1980s. The export of Canadian softwood lumber into the United States filled the gap between available domestic supply and the demand, to the extent that Canada was providing 34 per cent of the US market in 1985. In 1970 the amount had been 18 per cent, a doubling of our influence in that market in those 15 years.

Several factors have contributed to the intimate relationship of expanded Canadian softwood lumber production and increased exports to the United States.

First and most important is our industry's access to available standing timber of a type that is readily acceptable to the US customer. The continued well being of the Ontario lumber industry depends on adequate supplies of suitable timber for the various processes. Our provincial forest management policies have long addressed this principle. We are pleased to observe the government's position now of best end use of the forest, ensuring that logs will go to that processing plant able to realize the maximum product return based on size, species, etc.

Second, in that portion of this 15-year period seeing the largest increase in exports, the exchange rate of the Canadian dollar was an advantage to lumber producers in shipping to the US. This advantage of an export-oriented Canadian dollar, however, is deteriorating. In the past 24 months, we have lost 10 per cent of this favourable circumstance, the relative position to the US dollar having moved from 71 cents to 78 cents.

Third, the industry expansion and its relative exporting success would not necessarily have taken place, in the dimensions described, without the entrepreneurial spirit which characterizes the sawmilling community.

Finally, all of this took place within a free trade market philosophy for lumber in North America.

To be fair, to balance the facts, it needs to be noted that there have been several attempts by US interests over many years to upset, to constrain the export of Canadian softwood lumber to the US. It is valuable to observe at this point that free trade in our industry has been an issue for a long period of time.

In 1983, a coalition of US lumber producers attempted to establish a countervailing duty on imports of Canadian softwood lumber. The industry, the provincial governments and the federal government mounted an effective and unified defence of the issue at a cost of \$5 million to the industry and won that case on fact and merit.

Again in 1986, the US Coalition for Fair Lumber Imports instigated countervail action and was subsequently successful in receiving a 15 per cent duty applied on Canadian lumber imports. The Canadian industry remained confident that the final determination would see the preliminary overturned, the duty eliminated. At this juncture, unfortunately, the federal government and some provincial governments broke ranks, negotiating an export tax. This

action came at a time when free trade was a continuous feature of government activity. As a result, our industry has been stripped of all protection under prevailing international trade agreements and is bearing costs more than those which a 15 per cent countervailing duty would impose. I will quickly remind you that the Ontario government did not approve this move led by the federal government, a fact of which Ontario softwood lumber producers are appreciative.

The 15 per cent export tax on Canadian softwood lumber exports to the United States is specifically excluded from the provision of the Canada-US free trade agreement. The irony of that situation can hardly fail notice. The free market in North American lumber, under which Ontario and Canadian lumber producers flourished has been denied in the agreement.

It appears to us, and hopefully will to others, that this is incongruous. Considering the timing of developments in the Canadian softwood lumber export issue, within the dynamics of the negotiation of a draft free trade agreement, we can only conclude that the logical explanation for the imposition of the export tax was to remove an irritant to the Americans from those negotiations.

Free trade has been the essential ingredient in the growth of the Canadian softwood lumber industry. It is our opinion that the spirit of free trade, now denied us, is in the best interests of our industry and of the related industries and communities it supports in Ontario. It is also our opinion that the Canada-US free trade agreement, as we know it, is not in the spirit of free trade, and that for our industry, for example, the agreement has resulted in an impediment to free trade.

Not being at all conversant with the impact other industries face in this new climate, I can only speak to our situation. Our situation, to restate the obvious, is that under the Canada-US free trade agreement, the Ontario softwood lumber manufacturers do not enjoy free trade. I thank you again for this opportunity to share our association's views and would be pleased to entertain any questions.

Mr. Chairman: Thank you very much. I do not see any hands. I will start off. All right; I do now. Mr. Morin-Strom, you will probably ask the same questions.

Mr. Morin-Strom: First of all, I want to thank Mr. Martel for the presentation. I very much appreciate someone from northern Ontario coming to Toronto and representing the interests of an important segment of our economy in that region of the province.

There was one area in which I thought we might try to correct the record. You say, "I will quickly remind you that the Ontario government did not approve this move by the federal government" in the imposition of the 15 per cent export tax. My understanding is that it is quite clear that the Ontario government in fact was part of the negotiation process, did agree to the principle of imposing a tax on our industry and did not really, to the extent it should have, stand up for lumber producers in this province.

Mr. Chairman: That was not a question.

Mr. Mackenzie: It was a very apropos and obvious comment, Mr. Chairman. I recall questions on that in the House.

Mr. Chairman: Mr. Morin-Strom's comments might be the substance of debate. Do you have a question, though, Mr. Morin-Strom?

Mr. Morin-Strom: I would like to as well--I do not know. I will get to a question here. The point being made here is that when it comes to a particular aspect of the trading relationship between the two countries, we have here an exclusion of the principle of free trade when it comes to this important industry. There are other examples as well which have got exclusions, to the American benefit. I think we have had some submissions to the committee, one from Dare Foods for example, and I think in some other areas on exclusion in the area of sugar content.

I recall that when we were down in Washington last time with the committee we met with Senator Matsunaga. Like so many of the American representatives, they all proclaim, "We are free traders," but there is always the caveat and Matsunaga said, "I am a free trader on everything when it comes to Canada and the United States except for sugar." When we met with Senator Heinz of Pennsylvania, he said he was a free trader when it came to everything except steel. When it comes to the particular issues, they are still going to use the political process to try to stop any industry which their politicians and their industries feel are being hurt by Canadian imports. In terms of your situation and the 15 per cent export tax, what scenario do you see before you in terms of the possibilities of getting out of that tax at this point? Can your industry appeal that tax or is this deal with its specific exclusion absolutely closing the door?

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Mr. Martel: As far as I am concerned, I think the federal government closed the door on any negotiation that is taking place or that took place. It even took the 15 per cent. It brought it to Canada and we have to pay it now.

Mr. Morin-Strom: The federal government benefited, but--

Mr. Martel: If we do not pay it to the federal government, then we have section 301 that is applied right in the state. We were sure ourselves that with the \$10 million that we spent in 1985-86, we were able to negotiate a free trade. As far as I am concerned, I do not know if our negotiator in the federal government ever negotiated hard enough on why we had that kind of access to the United States by the 71 cents compared to the dollar.

Today, 71 cents to 78 cents means \$30. We are not talking about five cents. We are talking about \$250, one thousand feet to 300. That 15 per cent is not \$15 at all. It costs me \$45 on the 15 per cent and it is coming out of my pocket. It is nice for the federal government to collect it, but I do not know. Here in Ontario we have a situation that we are exporting to the US. Exporting to other markets is very difficult for northern Ontario.

Mr. Morin-Strom: Because we are not close to--

Mr. Martel: Any port.

Mr. Morin-Strom: --an ocean port or wherever, our logical market is the US Midwest.

Mr. Martel: It is the US.

Mr. Morin-Strom: Central states.

Mr. Martel: Yes, central states.

Mr. Morin-Strom: North-central states.

What has been the impact on your competitive position into those markets? Has it hurt in terms of jobs or particular companies to this point, and what do you see happening next year?

Mr. Martel: Not yet, but as you know, we tried to pass on the tax to the US. It was in need of lumber enough that it paid the 15 per cent for a long while, so that 1987 until about October was a very successful market. That 15 per cent was off my pocket. I would have made a lot of money maybe with being able to increase the price of lumber. I was able to pass that 15 per cent on, so it was not too bad. Now the supply and demand market has dried up a little bit and the price went down.

I just came from Dallas talking to the National Home Show and I have been at that exhibition talking to many Americans. I think maybe 1988 will be not as good as 1987 for their construction, but they see pretty good construction ahead. Everybody says, "Watch out for 1989." I have been telling myself to watch out for 1987. Thank God it did not happen, but it is happening since October. Since October 1987, the price went down \$50 a thousand. That is a lot of money. I cannot afford it.

Mr. Morin-Strom: So construction starts have declined.

Mr. Martel: Construction started to decline because of the winter. Let us hope it is the fact.

Mr. Morin-Strom: Another issue coming up in the area of lumber: I have noticed that the papers have been reporting that in the United States political pressure is building from their lumber industry for access to the Canadian market. Their complaint is about our standards on, I am not sure if it is just plywood--

Mr. Martel: That is plywood.

Mr. Morin-Strom: On plywood. Are your firms involved in the plywood business as well?

Mr. Martel: No. You have to remember that the Americans do not want to comply to the specification for plywood in Vancouver or British Columbia, but when we send lumber there, we have to supply it to their specification.

Mr. Morin-Strom: In the United States?

Mr. Martel: Yes.

Mr. Morin-Strom: So there are differences in the specification and the Americans are basically insisting that Canada play by the American rules, not by the Canadian rules.

Mr. Martel: They want to lower the standard of the plywood because their standard is lower.

Mr. Chairman: The free trade agreement, of course, entrenches this softwood lumber agreement, so that if this agreement comes into effect we are bound by that agreement for the rest of our--

Mr. Martel: We are not in it.

Mr. Chairman: It is written right into the free trade agreement, though, that we are going to be bound by it as long as it continues to function.

The softwood lumber agreement has a very short time period, I cannot recall whether it is 30 or 60 days, in which the Americans could sever it if they wish. We cannot. When this committee was in Washington in April of last year, we were talking to Ann Hughes, who is the under-secretary of commerce. She informed us that all the major softwood lumber producers in the United States have lawyers and accountants on retainer to check the books of the producers in this country. Were you aware of that?

Mr. Martel: Yes. Canada agreed to it.

Mr. Chairman: Canada agreed to it. Are you aware that your books are being regularly perused by your American competitors?

Mr. Martel: I do not know. As long as they see I am paying my 15 per cent and it seems to be OK, maybe they will not come. But they can come any day.

Mr. Chairman: It strikes me that this would put you at a great disadvantage, to have your own competitors able to check your books at regular intervals.

Mr. Martel: Yes. Ask Mrs. Carney.

Mr. Chairman: Do you know of anyone who has experienced repercussions from that?

Mr. Martel: Not yet, no.

Mr. Harris: The free trade agreement, as I understand it, does not correct what the Ontario lumber industry perceives as a problem. I agree with you: it does nothing one way or the other. If this agreement were not negotiated, would you be better or worse off?

Mr. Martel: As far as I am concerned, if that 15 per cent were not there and we had been able to do what the western states did, I would be making money instead of losing some.

Mr. Harris: We are analysing the agreement itself. Your biggest concern is what the agreement did not do as opposed to what the agreement does in various other sectors. Were this agreement in place three years ago, do you think what would have happened with the 15 per cent would have been any different?

Mr. Martel: Maybe. I cannot tell you. I do not think that thing would have happened. I think Canada would have fought more than it did.

1630

Mr. Harris: I agree and I guess we hope it does in the future. This 15 per cent is causing Ontario a problem, and it has already been alluded to by Mr. Morin-Strom that you appreciate the efforts of the provincial government. Yet the provincial government, in a letter from the deputy

minister to Pat Carney, agreed to 10 per cent and agreed to the principle of negotiating that the money stay in Canada as opposed to the tax there and trying to get a settlement.

I guess what concerns us with that and what has always concerned me is that Pat Carney had a problem. British Columbia, which ships 60 per cent of the lumber to the United States--

Mr. Martel: More.

Mr. Harris: More than 60 per cent. BC admitted and acknowledged that its dues were too low. Pat Carney comes from British Columbia. She has to negotiate for all of Canada. The biggest problem, as I understand it, is BC. If BC had not been shipping into the United States, there would not have been any countervail action, there would not have been a problem. Quebec, as I understand it, was charging about half the fees that Ontario charged.

Mr. Martel: About five to six dollars less, yes.

Mr. Harris: OK. The position that I do not think the federal government heard and I do not think Pat Carney heard--and I would like to know if you presented it to Pat Carney or if you are aware that the provincial government did--was: "Yes, there is a problem. Yes, Minister, you have a problem. Yes, the US is right. Yes, the fees are lower. But it is not Ontario; BC is where the problem is. If you increase the dues in BC to the level they are in Ontario and if you increase the dues in Quebec to the level they are in Ontario, you will not have this problem."

Are you aware of that position ever being put forward by your association or by the government of Ontario?

Mr. Martel: As far as I am concerned, Mr. Kerrio did a good a job of trying to put it on, but it was not put on.

Mr. Harris: Before the 15 per cent?

Mr. Martel: Before the 15 per cent.

Mr. Harris: Because the only thing we have on record, you understand, is, "Yes, we agree to 10 per cent across the board."

Mr. Martel: Yes, but the industry came back and said, "No 10 per cent." I think the deputy minister then was maybe acting in good faith, but I do not think she ever talked to us about that.

Mr. Harris: OK. I think the scenario that I have laid out--would you agree?--is really what happened, is why the Americans were mad with the overall thing. Now we have BC increasing its dues. Has Quebec increased its?

Mr. Martel: Yes.

Mr. Martel: What should have happened all along is happening, except Ontario is now caught with the 15 per cent.

Mr. Martel: Yes. We are on the worse end of the stick, because if you want to talk numbers, BC was paying \$1.36 a cubic metre. Ontario was paying \$3.73; now it is \$3.80. It makes quite a big difference. Now we are asking the minister, and we had meetings with the Ministry of Natural

Resources, and I told the Premier (Mr. Peterson) too, that one way or the other we should be equal to, not worse than BC, not worse than Quebec, and we are right now. We are still paying export tax. We do not want to move from there till we know which way to go. You see, it is decided with BC. The press went and said, "The 15 per cent is not there any more." They did not say it was for BC. You see?

Mr. Morin-Strom: Is their stumpage still lower too?

Mr. Martel: I do not know. We have been trying to find out for the last three weeks, sir, what price they are paying. I have been talking to members of the CWC, the Canadian Wood Council, who were with me in Dallas, and they do not even know what they are paying.

Mr. Harris: So we still have to find it out.

Can I just conclude, to get back to the agreement, by asking: Would you agree that your association has looked at the free trade agreement from the viewpoint of the lumber industry and the 15 per cent softwood tax? Other than the fact that the agreement did not redress that problem that you see there, do you have any other difficulty with the agreement?

Mr. Martel: I cannot talk for others. I know that we do not have free trade as people are looking at it.

Mr. Harris: And you would like to have it?

Mr. Martel: I would like to have that 15 per cent out and I hope our Canadian government will see that it made an error someplace and that it will try to redress it. As I said before, we were at 71 cents; now we are at 78. That thing should have been thought about when they made the negotiation too. We are getting lower on the pork barrel.

Mr. Chairman: It is the chair's understanding that American countervail law does not permit targeting of a tariff to one particular sector or province of another country.

Mr. Mackenzie: As I understand it, when the federal government started collecting the money on the softwood lumber, one of the things the Premier said would happen was that Ontario's portion would be rebated back to the industry or the communities. Are you aware of any of that money being turned over to the communities or the industry in terms of any assistance?

Mr. Martel: As far as I know or I think I know, that money has not moved yet. That money was supposed to return to silviculture, as far as I know. I do not think it is earmarked for exactly that now.

Mr. Mackenzie: Is \$7 million a month the figure you have?

Mr. Martel: It is over \$32 million or \$34 million now, at the end of December.

Mr. Mackenzie: I think I have asked questions in the House on this but keep getting told that other things are being done for the north. There has been no specific turnover of this money that Ontario got as its share from the federal government then.

Mr. Martel: As far as I know, no.

Mr. Mackenzie: The other thing in line with the questions that were coming from my Conservative colleague, in fact, the problems you have in your industry, and they are substantial in terms of the tariffs--we have gone through the softwood lumber, the shakes and shingles and all the rest--all started after we started negotiating a so-called comprehensive free trade deal. None of these were really there before, or if they were there before, like the steel industry, you were able to negotiate out of them yourselves.

Mr. Martel: It comes from away back. You see, 1979, 1980, 1981 and 1982 were very, very rough years for the lumber industry. It was also rough for the US. They closed many sawmills; we know about that. They really lost in 1983. We won our share by saying that, no, we were assessed enough and we were not helped by the government on anything. But in 1985 it did not turn to rationality, it turned political.

Mr. Mackenzie: I can say the same thing about the steel industry in my home town. We beat off the requests through a variety of actions in 1982-83, before we entered into this, but you have really suffered most of the penalties since the implementation of the talks.

Mr. Martel: You see, sir, we talked about the idea of curtailing, as the steel industry did. We did ask. In Ontario we were ready for that, but BC, with 60 per cent or 70 per cent export, did not want even to touch it. As far as they were concerned, I think it was free gravy and let us go.

M. Beer: D'abord, Monsieur Martel, puisque vous êtes la première personne de langue française qui vient présenter un mémoire devant nous, j'aimerais vous dire que ce que vous venez de nous dire a certainement souligné quelques problèmes avec l'accord de libre-échange. Peut-être qu'une autre fois, quand vous viendrez nous présenter vos idées, avec les interprètes et tout ça ici, vous pourrez présenter alors tout le mémoire même en français.

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If I could just follow up on two things, Mr. Martel. I was not here a year ago; I was not here in the fall of 1986, but it was my understanding that at a federal-provincial conference in Vancouver, the Premier was quite specific and strong in his opposition to the 15 per cent. In fact, the statement you made here is correct. I just wanted to say that was my understanding and I felt your expression was correct.

The second point was that a comment was made that, whether or not there was a free trade agreement, the softwood lumber deal still hurts your industry. To that extent, that is true. It would seem to me, though, the fact that the deal is now enshrined in this agreement--it is not just something that happened, but it is now enshrined here--poses two problems: first, it makes it exceedingly difficult, if not impossible, to change that, because it takes on a much greater significance; and second, it serves as a precedent, perhaps, for other things that might happen. I would like your opinion on that.

I would be interested in knowing, are there other concerns your industry has where it is felt that the US lumber industry may come against you in terms of other areas of your business and using the softwood lumber arrangement as a means of doing that?

Mr. Martel: They succeeded in putting on 15 per cent. They might try to go and put it higher to push us out of there.

Mr. Beer: But you are not aware at this point that there are any other specific--

Mr. Martel: You see, as far as I understand or know, it is not all the industry in the United States that asked for the prevailing duties. It was certain big companies that were pushing, and their senator took the issue and went at it there. We still have many friends in the US who do not approve of that 15 per cent. Talking with the builders, I know they understand that if they need our lumber and we can bring the price up, it is the people of the United States who will have to pay that 15 per cent. It is not good for me and it is not good for them, either, because right now it is the west, Oregon and all that, that really pushes its sawmills now and is making the money. They do not have to pay the 15 per cent. Somebody here said it. You know that in British Columbia, Oregon can put two-by-10s in Vancouver more cheaply than Vancouver can put them in the United States, because of the 15 per cent.

Mr. Milton: Mr. Chairman, if I might respond to Mr. Beer, there are two potential difficulties in the entrenchment, the enshrining of the softwood lumber agreement in the free trade agreement. First, it is within the sphere of the American legislators and the advice they get from the US forest products industry whether or not Canada is playing fairly by the rules, even at 15 per cent. I mean, we in Ontario, by some magical arrangement, could cut our costs to the point where, even at 15 per cent tax, we still dominate Michigan and Wisconsin, and they would say, "I guess we did not put enough on." I think they have that option to come back and display that it should be 25 per cent for Ontario, maybe it should have been 75 per cent for British Columbia.

The other difficulty we have in Ontario--and, regrettably, led by some of the efforts in British Columbia and Quebec--is that now, to replace that 15 per cent, we must demonstrate certain things apropos the stumpage, apropos royalties, apropos costs of wood delivered to the sawmills which are, in the aggregate, the cost of manufacturing. We have to prove that to someone in Washington, and the someone in Washington is not those ladies and gentlemen who are elected among the good and knowing of the American populace but those people who sit on the other side of the room or behind that wall, so that when our paperwork is taken in, they may not look at whether it is fair and equitable, applicable to British Columbia or Quebec, but they would look to see whether Ontario had an advantage over the producers around Atlanta in penetrating the market into Ohio.

We really have a difficult proposition to prove replacement measures, not only in the United States but for equality across Canada as well. It has been intoned by several of our directors that the actions of British Columbia, and perhaps those of Quebec, not only jeopardized the case as it was being developed, but the timing of it was amazingly unfortunate. As to what has been done now, as Yvon says, he met with many of his colleagues from British Columbia in Dallas. They, seemingly, are not totally aware of what their charges really are.

We, in Ontario, have some idea and we would like to be able to present a case to the government of Canada on our behalf. Were we to go the route of replacement measures, it would prove that 15 per cent is not, never was and never should have been applied to Ontario. We were paying the largest stumpage and royalty of any of the provinces and we were disadvantaged in the agreement because 15 per cent was applied across the board.

Mr. Kozyra: Mr. Martel, generally speaking you drew a fairly

positive picture of the Ontario lumber industry prior to this tax application. Could you project, in the longer term, a 10- or 15-year term, the impact of this tax now that it seems to be entrenched, and it would be a great difficulty to alter it, the impact on the Ontario lumber industry, on the work force and, specifically too, on what are now commonly known as single-industry towns in so many of the saw mills, and so on, that relate to those smaller communities? Have you been able to do that?

Mr. Martel: I am sorry, the only thing I can tell you is off my head, what I see might help.

Mr. Kozyra: That is what I am after, your own perspective.

Mr. Martel: If the the price of lumber continues to deteriorate from that 15 per cent, not all the sawmills will die, but a lot of them will. It will be the one with the stronger back that be able to sustain it. When that happens, it will create a shortage of lumber. Then, the way I hope it will happen, will be that we will be able to increase our price. So if we can increase our price before we are dead, then we will be able to succeed. I am sure we will need a lot of help from the government. We will need a lot of help from all of the Ontario government to be able to stay. We will not be healthy for a few years.

Mr. Kozyra: In the meantime, before you are able to raise the price, if you are, and the strong ones survive, there could be quite a few casualties through northern Ontario among the weaker ones, especially in the communities that can least afford to have them.

Mr. Martel: I am sorry I said no, there was no casualty, there was. There was some in Nakina; there were some in--

Mr. Kozyra: That is in the first year or so.

Mr. Martel: It was in the first year. The people were producing stud. The stud market is down, it is dead. Those people are not producing any because they cannot afford to lose more money than they are losing now. The good thing that is happening is that they are integrated and they are making paper. The paper industry is going pretty good. They do not have the 15 per cent. They do not have the surplus of stumpage.

Mr. Kozyra: Thank you.

Mr. Chairman: Thank you very much and thank you, gentlemen. You have helped us a great deal. We appreciate your coming from Chapleau to assist us by driving home, particularly, the problems you have had in this one industry, what it has done and what it is doing to you. Frankly, it corroborates some other evidence that we have received and expands on it; at the same time, you have given it in a very direct way. This committee will consider it with great sympathy.

Mr. Martel: You asked what can be done if section 301 is not to be put on us and we fight our fight. I think that today as the market of the United States increased in 1985, 1986 and 1987, they would not be able to prove all the things that they were able to prove in 1985 and 1986.

Mr. Chairman: I recall I saw at that time a legal opinion prepared by American trade lawyers that seemed awfully persuasive as to grounds for an appeal. There is a difference of opinion on this committee as to why it

happened, but in any event, that did not happen. Certainly, though, our empathy is with you and it will continue to be with you.

Mr. Martel: Thank you.

Mr. Mackenzie: Just for the record, earlier on, in using a couple of examples in one of the sessions, I mentioned a Lenore Miller as international president of one of the unions that had some problems with the moving out of the northeastern and northern US states. I said "of the United Food and Commercial Workers." For the record, it is Lenore Miller of the Retail, Wholesale and Department Store Union.

Mr. Chairman: Was that today?

Mr. Mackenzie: That was today. I was called by Hansard on it and I just wanted to put it on record because I did say United Food and Commercial and it should have been Retail, Wholesale and Department Store Union.

Mr. Chairman: You were reading a quote to Messrs. Smith and Stone that I was not quite following.

Mr. Mackenzie: That was out of the brief that was submitted to the cabinet task force by the United Steelworkers of America. We will be interested in having them take another look at it when they are before us later in the week.

Mr. Chairman: Yes. Thank you very much for edifying us on this. We meet tomorrow at 10 a.m. in this room and at 2 p.m. in room 228.

The committee adjourned at 4:50 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS
TRADE WITH UNITED STATES
WEDNESDAY, JANUARY 27, 1988
Morning Sitting

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

CHAIRMAN: Cooke, David R. (Kitchener L)

VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

Kozyra, Taras B. (Port Arthur L)

Mackenzie, Bob (Hamilton East NDP)

McCague, George R. (Simcoe West PC)

Morin-Strom, Karl E. (Sault Ste. Marie NDP)

Neumann, David E. (Brantford L)

Nixon, J. Bradford (York Mills L)

Pelissero, Harry E. (Lincoln L)

Villeneuve, Noble (Stormont, Dundas and Glengarry PC)

Substitutions:

Beer, Charles (York North L) for Mr. J. B. Nixon

Faubert, Frank (Scarborough-Ellesmere L) for Mr. Neumann

Sterling, Norman W. (Carleton PC) for Mr. Villeneuve

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the Consulting Engineers of Ontario:

Goodings, William D., President

Weinstein, William, Executive Director

Individual Presentation:

Lazar, Dr. Fred, Professor, Economics Department, York University

LEGISLATIVE ASSEMBLY OF ONTARIO
STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, January 27, 1988

The committee met at 10 a.m. in room 151.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: The television audience should be aware that we are prepared to start our meeting, but we are waiting for seven legislators who are late. We now have two out of six Liberals, one out of two Conservatives and no New Democrats. We are waiting for legislators to arrive. Our witnesses are here. Until they arrive, we will have an adjournment.

The committee recessed at 10:01 a.m.

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Mr. Chairman: We have an interesting session this morning. A little later on this morning we will have Professor Fred Lazar from the economics department of York University. This afternoon we will not be sitting in this committee room; we will be in committee room 228, as will be the case tomorrow. Friday morning we will be back in this committee room with Bob White of the Canadian Auto Workers.

The first submission we have this morning is from the Consulting Engineers of Ontario. We have with us Bill Goodings, who is the president, and William Weinstein, who is the executive director. They have a brief, which is in front of you, which I am delighted to see is entitled Free Trade: A Service Industry Perspective. Members of the committee will be very interested in getting a handle on the general reactions of service industries. I think we know where your industry generally stands, but we are looking forward to your submissions. If you would care to lead us through your brief, then we will ask you some questions later.

CONSULTING ENGINEERS OF ONTARIO

Mr. Goodings: As noted, my name is Bill Goodings. I am this year's president of the Consulting Engineers of Ontario.

I am sure you are learning something about Ontario industries at the same time as learning what their position is on this complex question. We are just delighted to be identified as a witness association and to tell you a little bit about ourselves so that you can get, in a sense, the context of our concerns and perhaps help us know you better and your concerns. Together we can be strong, because I think Ontario needs consulting engineers, and certainly consulting engineers need legislators to understand them.

The brief is fairly short and, I think, reasonably well written; but, with your permission, I would like essentially to read the brief so that it goes into the record, I guess, with the odd comment. It is a brief that talks about Ontario, the consulting engineers in Ontario. We digress a little bit to talk about our views about the problems of industry. Then my colleague here,

Bill Weinstein, will discuss the developments as we see them after having made a similar brief some time back. I will get into my brief so you can get on with your day.

The Consulting Engineers of Ontario welcome the consultative process encouraged by the Premier (Mr. Peterson) in connection with Ontario's study on economic affairs, with a special focus on Canada-US trade relations. Our industry, the Consulting Engineers of Ontario, is confident that the dialogue held with the affected parties will accrue to the benefit of the people of Ontario. This process has produced tangible input and has no doubt strengthened co-operation among the government, the business community and other sectors of society. The comments and suggestions we offered to the legislative select committee some time back were presented with that spirit prevailing. Today we are here to review our concerns and discuss the extent to which the free trade agreement signed in January impacts on our industry.

We are known as the CEO to our members and we represent the business interests of 350 Canadian-owned, Ontario-based engineering firms, all of whom are independent businessmen. CEO members employ approximately 9,3000 professional, technical and administrative staff and provide the gamut of engineering services to the public and private sectors of Ontario, Canada, the United States and the world. You will see further on what we mean, that we do in fact serve the world.

The smallest of our members consists of a sole practitioner and the large firms many hundred. Combined with branch operations, there are throughout the country thousands of employees. However, the average size of a firm in Ontario, which is about 25 people, if you have anything to do with averages, is made up as follows: About a third are professional engineers; six per cent are professionals and, more and more, these professionals are scientists, sociologists, planners, geographers and so forth; so our profession is changing from the slide-rule type to a more rounded professionalism.

We have, of course, technical support, 43 per cent, and administrative, who keep us straight at the bank and I suppose with the tax people.

Consulting engineering plays an important role in the provincial and national economy. We are relying here on 1984 statistics, but the billings nationally amounted to \$2.11 billion, of which \$1.77 billion was earned in the domestic market and \$340 million from international sources. Ontario firms held a major share of the domestic marketplace. It is estimated that the Ontario share of the Canadian export market amounted to approximately 30 per cent of those total export earnings, or about \$100 million. That is 1984. I am sure if statistics were available, we would show considerable growth on that.

Generally speaking, consulting engineering is small business. Consulting engineers face all the challenges of the general business community and more, because consulting engineers are unique in that they provide a service as professionals and must meet the high standards of ethics and performance demanded by their calling and as required in their code of ethics. They are precursors and absolutely essential to the economic success and stability of our province. We are not unique in that respect, no doubt, but we believe we are essential. It is unfortunate that, of all the businesses, consulting engineers are very, if not the most, vulnerable to recessionary cycles.

Consulting engineering's importance to the economy is inversely proportional to its size. It may be well to recall the role the consulting

industry has played and is expected to play in Ontario. It provides employment to many thousands of highly trained professionals, technologists and technicians. It can offer job opportunities to young graduates from universities and colleges now and in the future.

It is essential to all levels of government and Ontario's diversified manufacturing industry. During periods of growth and expansion, the public and private sectors rely upon consulting engineers for new budgets, facilities and work completed on schedule and within budget.

Let me digress a little here. In an industrial concentration such as we find in Ontario, we cringe when we are told that, on average, Canadian manufacturing firms are about 20 per cent less efficient than their American counterparts, and yet credible studies indicate that there is substantiation to that claim.

To digress again from my text, I was assessing the amount of hazardous wastes coming from Ontario industries, and we had to take into account the inefficiencies because we not only produce less product but we also produce a little less waste than most American industries. It is not all that wonderful.

Investigation over an extended period of time has repeatedly pointed to major structural weaknesses among manufacturers in Canada which negatively impact on efficiency. These include the problems of suboptimal plant scale. About one third of the productivity gap between Canadian and US manufacturing sectors can be attributed to differences in plant scale.

Suboptimal product runs: Effective competition in many industries requires that Canadian firms produce a full range of products. This miniature replica effect entails short production runs, hence high changeover costs.

Suboptimal firm size: Canadian firms experience relative diseconomies in distribution, marketing, financing and advertising.

Then we have the high debt-equity ratios, which will present difficulties in financing adjustments resulting from a free trade pact.

Low research and development: Canadian spending on R and D relative to the gross national product lags behind every major country, being only 1.4 per cent of the gross national product in Canada compared with 2.7 per cent in the United States.

Then we have the slow diffusion of technology, and this is an indictment of us all. In an Economic Council of Canada study, it was found that there exists an average lag of 11.5 years in the introduction of foreign innovations into the Canadian smelting and refining industry, a lag of nine years with respect to the electrical equipment industry and 5.5 years in the case of telecommunications. So much for that.

Let me return now to our principal concern, the engineering service sector and Ontario's needs for its consulting industry. The major task facing much of Ontario's productive potential is the effective application of new technologies to industrial processes. The knowledge and varied experience in the high-tech state of the art is found to a large extent among consulting engineers. We are not unique in that, but it is largely within our group. They will play a major part in the modernization of Ontario's manufacturing industries.

The export of engineering services results in benefits to the economy as a whole. An increase in the number and scope of international projects undertaken by Ontario consultants will create employment and enhance manufacturing and construction opportunities, largely because we are there first and can demonstrate Canadian products in the foreign context and we can improve balance of payments.

The consulting engineering industry has shown evidence of recovering from the past recession. The human resource base of many companies has stabilized and their financial capacity and capability are growing and gradually improving. Employment is growing and the industry is now starting to plan ahead with a limited degree of confidence. Not surprisingly, the consulting engineering industry operates almost entirely on human effort. That is our only product, service by people. People are its primary assets and people in this entrepreneurial sector of the engineering profession are the technical explorers of Ontario who venture out into the competitive world to implant the banners of Ontario, to stake out our technological credibility and establish our exporting capability.

It may be interesting to know that there are 53,000 registered professional engineers in Ontario, approximately 3,000 of whom are working in the consulting industry; so we are a large industry with a relatively small portion of the registered engineers in Ontario.

From a credible survey of the top 200 firms exporting consulting engineering services around the world, Canadian firms, with seven per cent of the developing country markets, rank fourth behind the US, British and French firms. The next closest competitors in this race are Scandinavian and West German companies, but not far behind is Canada, performing extremely well in a fiercely competitive market.

Canada's engineering involvement in the World Bank is increasing with a 7.4 per cent share and fourth-place ranking in 1984 compared with 3.4 and fifth place in 1979. The gap between Canada and France in third place was only 0.8 per cent in 1984; it was much greater than that, 13.1 per cent, in 1979.

It is interesting to note, however, in view of the fact that 80 per cent of all Canada's exports are destined to the United States, only 20 per cent of the total international fees earned by Canadian consulting engineers are derived from services sold to our neighbours to the south. Our firms' principal revenues are earned in Africa, about 22 per cent, followed by the US; then the Middle East, around 14 per cent; the Far East, 12 per cent; and Latin America, 10 per cent. It should be noted that in constant dollars our US revenues in 1982 were eight per cent less than they were in 1974. In other words, it is an uphill battle in the US.

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Major engineering export sectors: Since the early 1970s, the dominant areas of Canadian expertise recognized as world class covered the following fields: power generation and distribution; plant process, both primary and secondary industry; agriculture, fisheries and forestry; mining and metallurgy--in other words, what Ontario and Canada do best.

Power continues to be the number one sector, but its relative share of the market has decreased. It is interesting to note, however, that our engineering work abroad is becoming more diversified. Canadian consultants are succeeding in obtaining contracts in engineering sectors associated with

municipal work, transportation, petroleum, natural gas, buildings and other varied types of projects covering such sophisticated fields as integrated regional economic development planning and telecommunications. All of the aforementioned specialty sectors are well within the capabilities of your Ontario firms, many of which are actively executing contracts and continuing to expand their markets.

A word on the Ontario International Corp.: Our association has maintained close liaison with the OIC since its inception, and we are pleased to report that our relations are cordial, mutually supportive and effective. We appreciate the one-window government agency with a service industry export mandate and believe that Ontario International Corp. has survived the scrutiny recently completed. It should also be noted that Ontario's international project fund, among other support measures, has been a very useful strategy and should be continued, in our view, with expanded funding, wider scope and more flexibility. We consultants do not seek or expect government handouts; however, we do believe in a shared risk and shared-cost approach, because the benefits accrue to us all.

It has been noted that our service sector has been adventurous in the pursuit of its livelihood. Ontario consulting engineers derived one quarter of their 1984 total revenue from the export business. In addition, spinoff benefits to industry in our province have been conservatively estimated to have exceeded \$500 million in these Canadian-designed projects.

In a general sense, it follows that consulting engineers believe in the principle of an open marketplace and fair competition. There are special considerations, however, that affect the service sector which we feel merit discussion.

The General Agreement on Tariffs and Trade, GATT, has focused attention on the multilateral reduction of tariffs associated with manufactured goods and resources. Canada, like the US, is a committed partner to these negotiations. It therefore follows that our two nations are already closely linked with regard to liberalized trade, and US protectionism, so greatly feared by many Canadians, is constrained in many sectors by its obligations under GATT.

Trade in services has not been addressed by GATT, but as a result of the September 1986 meeting in Uruguay it is on the agenda in the current Geneva negotiating round, which will be deliberate and divergent in opinion, with strong nations probably supporting the reduction of service trade barriers and weaker nations in opposition.

Mr. Weinstein, who presented relatively the same text before in another setting, will take our brief from here and deal with the progress that has been made and our observations on that progress.

Mr. Weinstein: Our industry offered the following observation to the select committee on economic affairs in the spring of 1986--and I believe, Mr. Chairman, you chaired that committee as well--and a special policy meeting in February 1987 to point out our special concerns, which were not entirely addressed in the Canada-US free trade agreement. What I would like to do is review those concerns and relate them to the agreement as to how they were addressed or not so.

Ontario, as we have indicated, is dependent for its growth and prosperity upon the export of its technology in goods and services. This

concern was not addressed objectively in the agreement, perhaps for obvious reasons.

Service industries must remain economically viable at home to permit necessary investment of time and money required for success in international marketing. This was not addressed objectively.

To ensure such viability and protect our environment, Ontario public and private entities in their own interest must utilize the consulting engineering industry, already well established in Ontario, to design and manage capital works projects. Article 1404 talks in terms of equal treatment for US and Canadian consultants. That was addressed, maybe not totally to our agreement, but it was addressed.

Freedom of operation should be established across provincial boundaries in Canada along the lines practised in Ontario. The present parochial, protective, no tariff barriers require that firms wishing to work in most provinces must establish and staff an office in that jurisdiction. This dissipates the concentration of specialists and experts in a central office and negates the building of world-class firms organized to succeed against US and other foreign competition. Obviously, that was not addressed because it is a national concern; nevertheless, if we talk equal playing field on a continental basis, it is a matter of concern.

Engineering practice licensing is a state rather than a federal matter in the US, and lack of reciprocity requires an engineer to apply for licensing on a state-by-state basis, necessitating the writing of examinations. In Canada, licensing is reciprocated between provinces and US applicants are generally licensed without examination. That was not appropriately addressed in the agreement.

The lifting of trade barriers between Canada and the USA must be done on a fully reciprocal basis. There are many concerns that service companies have in this regard. One, of course, is work visas, and we can say that under article 1502 in the agreement access between countries has been simplified so that the immigration blockage of Canadian service firms entering the US for business purposes on a temporary basis will now be facilitated.

Professional licensing, as I indicated, was not really dealt with, although it was addressed in article 1403, dealing with matters in future with regard to licensing. Such matters should be based on competence only. We believe there is protectionism presently involved in licensing and that has to be looked at. Incidentally, our association is communicating with its sister association in the US in an attempt to rectify that problem, not unlike the architects, who have been covered in the free trade agreement in spirit although not in detail.

Locale of design office was not addressed. We are not so sure we can design a facility in the US from Canada. That was not dealt with.

The matter of joint ventures and joint and several liability has not been addressed. It is a severe problem because the next item, professional liability insurance and the statute of limitations, are matters of great concern to us. In Ontario, consulting engineers are liable, under the statute of limitations, in perpetuity plus six years. By that I mean if a problem occurs, you have six years to prosecute from the time you note or should have noted the problem.

Employment practices with regard to opinions on subsidization of health benefits and the like were not addressed.

Tax agreements: There is a tax agreement between the two countries, so we do not have any concern in that area.

A significant segment of our resource and manufacturing industry is US owned. An open trade and service border may encourage the use of US consultants who normally service the American head office engineering needs. Such action could remove a major list of clients from Canadian consultants. It has not been addressed, although there is a spirit that pervades, or at least is presented in the agreement. That is justifiably a matter of concern that will be tested with the implementation of the agreement.

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US companies may tend to abandon or downplay their branch plants in Canada for many reasons. We do not feel there should be the freedom to permit that. We suggested, perhaps in a facetious manner but with a degree of seriousness, that withdrawal should be done only on the basis of bona fide hardship claims, which should be determined by a select agency in Canada covering the various regions. The acronym we propose is CANT, standing for Canadian Agency for Neighbourly Trust.

Tradeoff tactics should be avoided, i.e., US accepts shoe imports from Canada in exchange for free access by US consultants to the Canadian market. The agreement avoided that, with the possibility of one exception. That has to do with the fact that consulting engineers do not have access to government procurement contracts. I should say that contractors and suppliers of materials and equipment do have access to contracts over \$25,000 that are not minority company contracts or small business contracts, but Canadian consulting engineers have been exempted. We believe that was a tradeoff in connection with the cultural concern that pervades our country and thereby we have been sort of removed from a very significant marketplace.

Over 80 per cent of Canadian consulting engineering firms are small businesses with less than 25 employees and freer trade will assist only those firms with very unique skills, but the majority may lose their local markets and lack the financial and human resources to compete with the US consulting industry. This statement suggests that freer trade benefits will accrue to the large, financially powerful firms of both nationalities--a small number of Canadian firms against a multitude of Americans. This has yet to be tested.

A freer relationship may be viewed by third-party countries as a single North American market, which could halt Canadian branch plant investment from such countries as Japan, Korea and the European Community. This has not yet been tested, but it is interesting to note that Hyundai's president did not come out pro or con and it is still considering the impact of the free trade agreement.

There is cause for concern about the possible adverse effects on research and development in Canada currently paid for by many US-owned or controlled subsidiaries and now conducted in our universities by our consulting engineers. US tax benefits and considerations of convenience could siphon some of these research grants to the US scientific community and have a stagnating impact on technology development in Canada. This also must be tested. It is difficult to try to prejudge the true evaluation of such an impact.

On balance, CEO is in support of the reduced constraints in cross-border movement which will benefit those firms seeking each other's markets. We believe we can compete on a technological level with consulting engineering firms anywhere in the world. We regret the absence of government procurement access which represents a large service market, one of the largest in the world. Of course, when we go into the US, we are dealing with a market 10 times greater than our own and perhaps even more than that.

I reiterate a claim I made during our last discussion. It may wax poetic, but still and all, Canada possesses in its consulting engineering industry a sparkling gem, as this committee is as well a sparkling gem, which will pursue its fair share of the US and world markets, trusting the free trade and GATT agreements will enhance its lustre rather than serving to tarnish this national jewel.

Perhaps I should also say that we have a new slogan and we trust that everybody will share that slogan, "The world is our oyster; the US the pearl," and we will go pearl diving with great confidence and yet we will not abandon the rest of the world as far as pursuing international assignments.

Mr. Chairman: Thank you, gentlemen. You are among the most poetic engineers I have ever heard. I would also compliment your brief on the way it is set out. It will certainly be easy to make reference to it with the clear-cut way you have presented it.

Mr. Sterling: First of all, as the only professional engineer in the Legislature of Ontario, I would like to say that I welcome you here to this particular committee. Perhaps you will help me along in terms of seeing the logic of the process which you explain in your first paragraph, because I would have thought your input would have been much more meaningful to this committee had we the option in this committee to formulate what the opinion of the Legislature would be with regard to the free trade pact.

As you know, my party--I am one of the 16 surviving Progressive Conservatives--wanted to have the option of the Legislature voting on what we found good in this particular free trade agreement and what we found bad in it. As you know, we are not going to have that luxury because the Legislature has already made up its mind about this whole process and, therefore, I find it a bit ironic in terms of your praise for the Premier and his consultative process. It is great to consult and ask people what they think, but if you have already made up your mind as to where you are going to draw your lines, it becomes a little bit fruitless.

I just do not see the logic flowing from that and I am sure that you will understand, as a fellow engineer, that the logic which this government has followed in this whole area is a little bit hard to follow.

Mr. Chairman: What is the logic of your question?

Mr. Sterling: The consulting engineers represent a small percentage of the engineering profession but you have a very large role to play in the Association of Professional Engineers of the Province of Ontario.

Mr. Goodings: We are the entrepreneurs in a sense of selling engineering services as opposed to being employees working for manufacturing and government.

Mr. Sterling: In reading through your brief, when you asked about

various parts of the agreement that were not dealt with, I was wondering whether there was a realistic expectation on your part that things like professional liability insurance or things like statutes of limitation were going to be dealt with in the agreement. Do you think that was realistic in terms of what you expected?

Mr. Goodings: Yes. Mr. Weinstein will answer, but I just offer that we are looking for what is often referred to as the level playing field and the rules of the game. In effect, we are prepared to take on the challenge of the US and the freer trade that is epitomized by this agreement. But we want certain ground rules and we do not see them addressed. Whether that agreement could have touched on all that, I do not know.

Mr. Sterling: Let me just take, for instance, the statutes of limitations. The statutes of limitations in Ontario have varying limitations on bringing legal action for different kinds of tort and for contract action. It even mentioned the six years which deals with a contract that is not under seal, but there are different lengths of time, even in Ontario law, in the statutes of limitations. When you go to Quebec, there are different times; when you go to Manitoba, there are different times; when you go to each and every province, and we have not got our act together in Ontario as to unified times for bringing different actions in legal cases.

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Mr. Goodings: I was just pointing out there, though, and I guess taking advantage of this forum for you to know--and we are talking now about professional liability, not just the normal things that are dealt with in the statute of limitations--it is I think a little hard to conceive of a period of time that is perpetuity plus six years. In other words, that is the same as perpetuity, because you can always add six years to a number, can you not? That is our concern, that in Ontario, the discovery of the problem plus six years is the time that a person can bring suit.

I suppose the Leaning Tower of Pisa is a good case in point. If it was found to be leaning after 300 years, the owners of that have access to the estate--God knows where it is--plus six years. So Ontario has a problem and we have a problem with that.

Mr. Sterling: That is a provincial problem. That is really not a free trade problem as such, other than you are saying that--

Mr. Goodings: We would like it even--Steven right across.

Mr. Sterling: You are advising the provincial government to change that.

Mr. Weinstein: If I might just address that briefly, that statute of limitation has an impact on our cost of operation. It impacts directly on the premiums we pay for professional liability insurance. That limitation does not prevail in the US, where their statutes of limitations vary from four to 10 to 12 years from the completion of a project. That is the limit on any claims that can be made in contract or in tort. That has an impact on their premium and their cost of operating. I think Ontario, in order for it to be competitive internationally, must recognize these problems and we cannot slough over them. They are fundamental to our competitiveness in the world markets.

Mr. Sterling: I am sorry, the way you read the particular brief is that you say this should have been dealt with in the free trade agreement. That should be dealt with by this provincial government. That is what you are saying because that is where the right--

Mr. Goodings: We would like you to consider it as a concern of cars, but the agreement was written by two parties, not just the US people but obviously by the Canadian negotiating team, and we think it should have been dealt with and introduced by one of the two parties. We are just looking for an even playing field and we would like that problem generally addressed, although it may be naïve on our part to think the agreement would be so encompassing. However, you have asked us to come here today and tell you what our concerns are and that is one of them.

Mr. Sterling: The other one was with regard to professional liability insurance.

Mr. Goodings: Yes.

Mr. Sterling: I would have thought rates in Canada would have been lower than they might have been in the United States. Is that not the case?

Mr. Weinstein: The insurance industry is in disarray. In Canada, we essentially have one underwriter which has a monopoly. It is a very difficult problem. It was addressed partially in the Slater report undertaken by the government of Ontario, but it is a matter of great concern. Twenty four per cent of our members are not covered because they cannot afford the premium.

Mr. Goodings: Or cannot get it.

Mr. Weinstein: Or cannot get insurance.

Mr. Sterling: What I am saying is that everything I have heard on this particular issue south of the border is that it is more costly because of their justice system to obtain liability insurance there than it is here. Is that not correct? Are you saying that the opposite is true?

Mr. Weinstein: I would say in the United States there are approximately six or seven underwriters so there is competition in the field. The litigious society in the US presents a problem that has an impact on premiums. In many cases, the premiums are higher in the US. Our one insurer in Canada presently is owned by a US company. Although it is basing its premiums on Canadian experience, there is an impact.

Mr. Chairman: I have a housekeeping matter that has to be discussed very quickly and very soon, so I am going to move to Mr. Pelissero and then, in accordance with the ruling I made yesterday, to Mr. Mackenzie, then Mr. Haggerty.

Mr. Pelissero: Was the playing field levelled, in your estimation, from your association's point of view?

Mr. Goodings: By the agreement?

Mr. Pelissero: Yes. What I am trying to come at is, are you in favour of or are you against the free trade agreement? From the first number of pages in your brief, right up until page 12, to me it was almost a case of your building a case that you were against it, all the way from outlining the

impacts on the manufacturing base in terms of different points, and then outlining your concerns that you highlighted to the committee in 1986 and 1987, and I see "not addressed" or "not addressed adequately" or "no problem" or "a major problem." Then, in the back paragraph, I am a little confused as to whether, on balance, you support the agreement or you are against the agreement. Help clear up my confusion if I am the only one.

Mr. Weinstein: I can address that. Our association, as an association, as a member of the Association of Consulting Engineers of Canada favours the reduction of tariff barriers.

Mr. Pelissero: What about this deal?

Mr. Weinstein: As far as the deal is concerned, in a leap of faith, we are supporting the agreement.

Mr. Goodings: It is not perfect but we are supporting it in a general sense.

Mr. Weinstein: As we addressed in our discussion, many of the concerns we raised will not be able to be truly evaluated for 90 years hence, so we are saying, let us make the best of it.

Mr. Pelissero: In your estimation--maybe you have answered it in terms of a leap of faith--did we get greater access or secure access to the United States because of this agreement, recognizing, as you have already done in your brief, that approximately 20 per cent of the business that members of your association do is in the United States?

I am assuming that one of your objectives in terms of whether it was a good or a bad deal was, did we get access to this 250-million-person market? If so, what did we get out of the deal or how did we beat the United States? In a negotiating process, there are winners and losers. How did we beat the United States, if we did--"beat" may not be the correct term--in your field?

Mr. Weinstein: Through the simplification of cross-border movement for temporary residency or temporary access, we gained significant access to a market that is substantially larger than our own. This in a sense will encourage firms to move more aggressively to service this market.

By the same token, US firms have access to our market. We are prepared to be competitive. We certainly did gain significant access. We lost the potential in the area of government procurement contracts, particularly in the US defence area where such things as Canadarm are a Canadian project that is actually marketed by a consulting engineer. We do not have access to that and in that sense we lost, but the US does not have access to our government procurement.

Mr. Pelissero: I get a feeling from your brief that certainly the large Canadian firms may view this as a plus in terms of their ability to compete, but I think you identified some of the concerns of the smaller firms with fewer than 25 people. I guess I can appreciate to a degree the idea of saying that on balance this is a good agreement, recognizing that there may be in fact smaller firms that may not be able to compete and may go out of business because of the trade agreement.

Mr. Goodings: I think we would have to agree with the sense of your question. There are winners and losers and probably the winners are the larger ones or the more aggressive, specialized smaller firms.

As Bill has said, there is the easing of border crossings, which up until the agreement was being negotiated was really verging on harassment. Our fellows had to essentially avoid the questions or suggest they were on holidays or something to work there. Now we are seeing a much greater ease in terms of border crossings.

The problem is, though, that the agreement perhaps does not go far enough in that the professional actions of our engineers are limited by the state attitude towards us in the US. In Ontario, for instance, we have an open situation where an American firm with a job in Canada can literally go and get a temporary work permit by the Association of Professional Engineers of the Province of Ontario and carry on. We are told to sit down someplace and write 99 exams. I do not know how many of my ilk can remember how to write even the Ontario exams, let alone the New Jersey exams. We are precluded by local state problems that tie us down. However, we would like to have seen the agreement go a little further to encourage the federal government in the United States, and perhaps Canada too, to look a little deeper and bring the states around to this point of view.

On balance, I think, like many, we have no difficulty with the US market if we could just have certain encumbrances removed.

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Mr. Pelissero: And it was not in that deal?

Mr. Goodings: No. It is not dealt with in that deal.

Mr. Pelissero: In closing, you may want to start the Canadian version of the Canadian Agency for Neighbourly Trust. You may get a lot of individuals who would be willing to join.

Mr. Goodings: Yes. I cannot tell you what it would cost to join, though.

Mr. Mackenzie: I am a little bit puzzled as to why, on page 3, you digress into a critique of the more inefficient firms or operations in Ontario or in Canada--studies show 20 per cent less efficient than their American counterparts and so on--as to just what bearing this has on your brief. Many of us observe that this can be challenged. It can be challenged on the makeup of the branch-plant economy we have in this country, where we have had ample evidence in previous committees of companies deciding to get out of business in this country deliberately over a period of time.

I point to SKF here in Toronto as a classic example of companies moving their productive large runs to medium-sized runs, then to the large bearing assembly runs, then to repairs, each one less efficient, and then claiming, in the last two or three years of operation, they had an inefficient operation that was not making any money.

We had a large number of companies that could not do research and development here, that were not allowed to export, as part of the mandates of their plants--they were just here to service a market--and the efficiency that you are talking about, I think it could be argued very strongly that was a business creation, not a workers' ability or Canadian expertise situation. Notwithstanding that, why did you digress in that part of your brief?

Mr. Weinstein: It was intentional. It was a sort of a prelude to the

concerns we expressed with regard to the possibility of a shrinking market. We dealt with an industrial constraint, which you expressed, the free trade agreement, "Will it have a positive or a negative effect on those marginal firms that cannot compete?" There was a recent brief prepared by Woods Gordon. I do not know whether you saw it. They have a commentary that comes out periodically on free trade, and they cited a specific example of a company under free trade that was producing a product that was marginally economical in the Canadian market, but the US parent could produce it more economically, taking into account the exchange rate, etc.

The Canadian company had to decide--because in order to be competitive in Canada it had to retool, upgrade and maintain a level of competitiveness; and it will not be until 1994, with the reduction of the tariffs, that it will become even marginally advantageous--the dilemma it had was, should it make a capital investment, bring itself up to speed to compete in the Canadian market, or should it let its American counterpart produce the product and warehouse the product for distribution? These are concerns that firms are going to have to make, not only on an industry-survival basis but on a product-by-product basis. We introduced this concern because if there is a retrenchment, we will lose a significant client market. So we think that is very significant.

Mr. Mackenzie: How do you explain a situation such as we have just gone through in my home town? Evidence that the companies sure as blazes did not bring out--the union was able to force it--showed a Firestone operation that, of all of their plants in the US, was the most productive per man in the entire operation and yet that was the one they decided they were going to close in any event.

Mr. Weinstein: We consider that is a symptom of what we are talking about, and that is a policy decision that was made in Akron and, unfortunately, had a tremendous impact on the Hamilton environment.

Mr. Mackenzie: Does that not indicate that we have to have the ability to use government intervention if necessary, or some control of our economy, or even deals such as the auto pact, which really is a form of content legislation which would no longer be possible with this free trade deal?

Your brief is a strange one. If, like my colleague Mr. Pelissero, you read through it and see all the references to things "not achieved," "not entirely achieved" and "not addressed objectively," you would think you were writing a brief that is entirely opposed to free trade. Yet your bottom line, after almost the entire brief indicating your concerns about what you did not get, says, "Hey, we approve it."

I submit to you that it would not have mattered what was in that deal; you were going to approve a free trade deal. What I am simply suggesting is that you may not have looked at some of the other concerns of Canadians, of Canadian workers and others, as to what we might lose in this deal or whether or not it does impinge on things like sovereignty or our ability to use incentives or anything else. Did that enter into your thinking at all?

Mr. Weinstein: I think that is an unfair indictment. This was a very thoughtful process. As we indicated, we are probably the most active industry, small as we are, in pursuing international markets. We indicated that our preference would be to see the GATT control the trade barrier reduction, or at least tariff barrier reduction, which we think is being addressed. Quite

frankly, we think our society is moving in that direction and we think it is happening. The bilateral agreement, in the short run, may act as an incentive to accelerate the GATT negotiations.

We were thoughtfully concerned about all the items you have suggested, but fundamentally we see an opportunity, we see a marketplace in the United States to date which represents 20 per cent of our revenue and that has had certain constraints that have acted as a barrier to our free movement. There are many examples where a Canadian consultant hired by a Canadian client who owns a bridge that spans an international border is competent as far as the Ontario client is concerned but must write an exam and become registered in the state of Michigan to prove his competence. We think that is ridiculous and that has to be addressed.

Mr. Mackenzie: You do not think you are still going to have problems with various state legislation and the fact that we have not gained relief from countervail or the US right to still take actions?

Mr. Weinstein: We have a long way to go. I think the mechanism for appealing and for airing publicly our concerns, although perhaps one-sided, at least permits, as the US Senate hearing phenomenon permits, a public hearing where fairness can be judged by all the people impacted by whatever problems are faced.

Mr. Mackenzie: But does not in the appeal process, and I am sure you know the weaknesses in that.

My final point also is that you have done something that witnesses before this committee a year or two ago told us was not likely to be possible for Canadian industry generally, and that is, a large part of your business has been in the Far East, the Pacific Rim, Europe--a much larger percentage than any of our exports and any of the value added goods.

I would not argue with you for a minute that we do not have the expertise and the ability in our engineering industry; I think it is probably second to none in the world. But you have already shown you can compete in all of these other areas. You have cracked only 20 per cent of your business, or whatever it is, in the US. I am not really sure if you have made a case in terms of what it means to this country as such. I think all you have proved is that you can compete anywhere, and I am not really sure what you need in the way of this agreement, which risks so much for other people in Canada.

Mr. Weinstein: I do not know that we are trying to preclude other industries. Obviously, our presentation is a fragment of what you are hearing. We are not so pompous as to assume that we are going to have any great impact one way or another. We are merely saying that we as a service industry at least now have more access to a marketplace that is very significant. We think that is good for us and we think there might be spinoff benefits for Canadian manufacturers. We think that is good for Canada. On the cultural issue, that is a whole philosophic discussion that, obviously, we are not going to get into at this particular juncture.

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We lost. We did not get access to the procurement of government contracts with the federal government. That is a major area where we feel we can contribute to the US. Maybe in due course that will be relaxed. But, on balance, we think the window is open. It is no longer business as usual. We have an incentive now to go down and do our share of the US market.

Mr. Mackenzie: You feel that entry is going to be on the basis of your ability, not on the basis of political decisions that will be made because of pressures from various US senators?

Mr. Weinstein: We are not that naïve.

Mr. Chairman: I think we have pursued this fairly extensively. I am going to give Mr. Haggerty one minute and then Mr. Kozyra one minute.

Mr. Haggerty: You want me to quit now, Mr. Chairman. That is what you are telling me.

I want to thank the association for its brief this morning. I have known Mr. Goodings for a good number of years, about 20 years, I guess it would be, or so.

Mr. Goodings: Thirty.

Mr. Haggerty: You are giving our ages away.

Much of the content of the brief this morning follows government motion 8, which says that the proposed agreement fails to secure access to the United States market for Canadian goods and services. I want to drive that point home to my colleague Norm Sterling.

Look at your report, page 4. I think you have probably summed it up very well there. It says, "Low research and development: Canada's spending on research and development relative to the gross national product lags behind every major country, being 1.4 per cent of the GNP in Canada and 2.7 per cent in the USA." Then you go on to add some of your concerns there.

You further reinforce that with regard to research in universities; you share some concerns in that area. Again, that is where we may be shortchanged in this. You say:

"There is cause for concern about the possible adverse effects upon research and development in Canada presently paid by many United States owned or controlled subsidiaries now conducted in our universities and by our consulting engineers. The United States tax benefits and consideration of convenience could siphon those research grants to the United States."

That is a pretty tough statement you had in your document this morning.

Mr. Chairman: Do you have a question from that?

Mr. Haggerty: I am just making reference to 1957 when we had one of the best research institutes in Canada. That relates to the Avro Arrow. The plane was advanced 30 or 40 years before its time, you might say. I am just thinking what happened then with the engineers who left this country and went down to the space program in the United States, and technicians. We lost valuable research and knowledgeable persons in the area.

Do you think this could happen here in Canada in the free trade agreement, that your profession has been left out of the picture? I noted in the report, article 1401, that special concessions were given to the architects in Canada. They seem to have a pipeline there, I suppose. To carry out the programs between the two countries, the flow in engineering requirements, we could see a number of engineers heading for the United States.

Mr. Chairman: Do you think the Avro could happen again?

Mr. Goodings: I shot an arrow in the air and where it lands, I do not know.

Mr. Haggerty: Do you think we could see this happening here now, that we could find Canadian engineers leaving Canada and going to the US where the proposed development and research would be done?

Mr. Goodings: If we do not pep up the research and development here, I would agree with your conclusion that we could lose those engineers as we did in the Avro Arrow experience. However, we have a lot of confidence in our engineers to want to be Canadians and work out of Canada.

If we had the freer trade agreement, with the improvements, as they go along, where we test certain things, we feel reasonably confident that the Canadian and Ontario consultants can compete. We are very anxious, though, about the so-called rationalization of industries that would want to use home office engineering consultants as opposed to Canadian ones now, coming from their rationalization, the Firestone experience and the like.

I would say, though, Mr. Haggerty and others, that we tried to focus and we did not deal with the philosophical issues. Engineers were asked to submit a brief as to how it affects their industry. It is obviously a very complex question and cannot be addressed effectively in the time and the period that you have allowed: so we have tended to focus. We are really quite confident, though, that with maintenance and improvements to the agreement, we can continue to do better.

I think it was suggested by Mr. Mackenzie's question that we have a disproportionately small portion of our work overseas, i.e., out of the country, in the United States, and we can do a lot better. We would like the so-called even playing field to make it easier for us to make that five times greater than it currently is.

Mr. Haggerty: I am from the Niagara region and I am well aware that one of the large consulting engineering firms is Acres International and it is all over the world. I know that the Canadian talent is there if we can just open the market for it.

Mr. Chairman: That is right. Mr. Kozyra.

Mr. Kozyra: I will get right to the point. Gentlemen, you mentioned that the General Agreement on Tariffs and Trade already offered a moderating influence on US protectionism and you have touched on it already this morning. Do you feel that with this agreement that is now diminished or improved?

Mr. Weinstein: As you know, until the meeting in Uruguay, GATT had not addressed service matters in its deliberations. They have agreed to touch on service matters.

Mr. Kozyra: So there is a potential for improvement.

Mr. Weinstein: It is now going into the Geneva thing, but we think that the strong countries of the world are going to favour liberalization of free trade in services and the smaller and weaker countries are going to object. There is going to be a confrontation.

Mr. Kozyra: In your concluding paragraph, you express optimism in rising to the competitive challenge in your field; yet, on pages 11 and 12, a whole list of concerns were expressed. How do you propose those concerns be addressed, by government, or are you going to continue to pressure the people dealing with the trade agreement?

Mr. Weinstein: We believe the government of Ontario has responsibility, and we want a dialogue, as we do with the various ministries involved and with the Premier (Mr. Peterson), to see if we can jointly structure some manner by which we can assist the consulting industry and project it even more aggressively into the international market to create an opportunity for follow-up supply and manufacturing to benefit as well. We think it is going to be a joint effort.

Mr. Kozyra: Finally, on this leap-of-faith question, is your assessment of the proponents of that basically being fuelled by the incentive of a greater prize that Canada sees in a proportionate share of the US market being much bigger than the Canadian, or is it the fear of the big stick of US protectionism, or both? What is fuelling the leap of faith?

Mr. Weinstein: The leap of faith is fundamentally the feeling that Canada is a growth area on this continent. There will be greater investment in Canada. The opportunities for servicing those investments in our natural resource industry and our secondary industry will be enhanced, but this fundamentally cannot be analysed objectively from this perspective in this period of history. Time will tell, but we believe through our efforts we can make it happen. The government, of course, has a responsibility as well.

Mr. Chairman: I am going to have to cut off your discussion now, because we do have a very busy day. As I recall, the message the economics committee received from this organization was that a bridge is a bridge is a bridge, and I think we have received that same message again. We appreciate your input. I say that in the sense that I think your message was that that should have been in the agreement so there would have been easier access to work on the other side of the border. It seems that is not the case in this agreement.

Mr. Goodings: Our concern, and I know you have a busy schedule, is that we would like this to be treated as an invitation. There are working things to be accomplished. We would like you to invite us and we would like to invite you to talk about the details, but not this morning. It is an invitation to the government and to your committee to get down to the specifics, those things that were not addressed. Perhaps with us, we can improve the agreement, because we feel it is almost in place.

We are dealing in the federal scene with our Association of Consulting Engineers of Canada. As a matter of fact, we are dealing today in Ottawa with developing a brief. It is a multipronged attack to improve the agreement, largely.

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Mr. Chairman: Yes, I appreciate that.

Mr. Goodings: We do appreciate your invitation and your good questions. I know you are trying hard to help us all in Ontario.

Mr. Chairman: Thank you very much.

One of the reasons I was anxious to finish this presentation was that I have received some information we really need to discuss right away, although I understand that Professor Lazar is waiting to talk to us as well.

This morning, Mr. Carrozza indicated to me that an attempt had been made by Mrs. Oberstar to book five people at the American Bar Association conference in Washington, and there are only two places there. We have attempted to contact, as well, the law firm of Osler, Hoskin and Harcourt, which was the Canadian contact, and it says it cannot help us. We contacted Mrs. Oberstar again, after she had attempted to canvass some congressional offices to see if there was something that could be done. She reports back that nothing can be done.

I think we need to discuss this right away, for obvious reasons. I await the committee's reaction. I will say nothing more for a moment.

Mr. Mackenzie: It was an auxiliary move to begin with and I think we should cancel the trip.

Interjections.

Mr. Sterling: I think the chairman was most anxious to go, and our party would be most supportive of him going on his own. I was going to go, but I am not feeling that wonderful in terms of health. I would bow out and I would offer the other position to the New Democratic Party if it wants to go, if it feels strongly about it. I think, Mr. Chairman, that you brought up the idea and you did want to go. You do not necessarily need an entourage. I think you probably could check in and out of the hotel yourself.

Mr. Chairman: I appreciate what you are saying. I have no strong feelings now about the conference. I agree that initially I did. I leave it entirely in the committee's hands. I will go if you send me, but I am certainly not lobbying for it.

Mr. Morin-Strom: I would suggest that if the chairman wants to go, and I think it would be of value to the committee, it would be wisest for us to send the chairman and our researcher, so we get back the best possible report, hopefully, on what happens at the conference.

Mr. Sterling: It is up to you whether you want to go, Mr. Chairman.

Mr. Chairman: I appreciate the comments.

Those who are new to the committee, who were not on the select committee, will not know Professor Fred Lazar as well as some of the rest of us. Professor Lazar made an appearance before the select committee and then was retained by the select committee to do some original research on a document that he tabled with us a little less than two years ago, entitled Potential Employment Effects on a Bilateral Free Trade Agreement on Manufacturing Industries in Ontario. I thought I would introduce you, sir, by bringing some of your comments home to roost.

Your research was done, of course, without any knowledge as to what a final agreement would say. It included a random sample of 380 manufacturing companies which you did yourself. In essence, I am looking at the conclusions that were in the back of the select committee report. If they are incorrect, Mr. Traficante is to blame, not myself. Mr. Traficante is here as well.

You predicted that more production would be shifted to offshore producers and it would be difficult to maintain current employment levels in North America. There would be a move to bottom-up planning, where business plans originate with the major operating and geographic divisions. You predicted an employment loss by 1995 of between 20,000 and 67,000 jobs, two to seven per cent in Canadian-controlled companies, six to 16 per cent in foreign-controlled companies, and an average of three to 10 per cent.

You indicated a desire for a long phase-in period, and I think perhaps you would indicate to us now that there is some attempt to do that in this agreement. You indicated that there is no change in the auto pact, which is perhaps not the case; elimination of buy-America statutes and auto pact type safeguards for other sectors, neither of which, I do not think, was accomplished.

In any event, I see you have given us a document which I hope you will lead us through, and then perhaps you will be open to questions.

DR. FRED LAZAR

Dr. Lazar: Thanks very much for your comments. What I will do is go through this document, but let me just preface my remarks by stating clearly what my position is on free trade and the trade agreement.

What I said in the report is that a free trade agreement, as long as we do not sell out or make excessive concessions, is a worthwhile objective to pursue. However, it is not a major issue and it is not going to have significant impacts on our economy, again keeping in mind that if there was an agreement, we should not make excessive concessions.

There are many more serious problems facing our economy, that of Ontario and Canada, and a free trade agreement with the United States would not resolve them. Among them are, as I point out in the study, the continued internationalization of production, the shifting of production to more and more countries in the world in search of low labour costs, Third World debt problems, etc. So free trade is a worthwhile objective, but it is not going to achieve much.

The other comment I want to make with regard to the specific agreement is that its major flaw is that it essentially ties the hands of the federal government and provincial governments to engage in practices that are both necessary and worth while to direct and influence the future path of development of the Canadian economy. That is its most serious flaw, and this will cost Canada, I think, quite seriously over time, both in terms of a productivity growth well below potentials and in terms of employment growth well below potentials.

Having prefaced my remarks, I can then go through the comments I have prepared here. I will start with two key arguments that have been used by supporters of free trade. One argument is that if you improve access to the US market, have access to a much larger market, this will enable Canadian companies to increase their production runs, specialize in a narrower, smaller range of products and take advantage of economies of scale, learning curve economies and dramatically improve their productivity levels.

The second argument is that in order to ensure that this reorganization, this restructuring will occur, Canadian companies will need a high degree of guarantee, a sort of insurance guarantee that access to the US market will not

be curtailed or perhaps reduced over time by US protectionist measures.

Those are the two key arguments.

With regard to the protectionist threat problem, the fact that we need this guaranteed access that has to be guaranteed in an agreement or else Canadian companies will not make the investments necessary to exploit the improved access to the US market, if we look at the US protectionist laws, they really can be grouped into three sorts of problems.

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One is countervail and unfair trade practices statutes. They essentially attack, at the US discretion, government policies that give Canadian companies some competitive advantage. That is one problem with the protectionist threat. They are US statutes that can counter Canadian policies aimed at assisting or benefiting Canadian companies.

A second set of policies are dumping and escape clause statutes which can be used to limit the expansion of Canadian companies that become too successful in the US market. There is that scope. If a Canadian company becomes too successful, a US competitor may claim it is engaging in dumping, or that imports into the US are rising too rapidly and, therefore, some degree of protection needs to be offered.

The third problem is that Canadian companies may not be engaging in any practice that violates any US statutes; however, companies in other countries are and the US statutes are not able to make allowances for companies in countries that are not in violation. Canadian companies may get sideswiped when the US tries to retaliate against Korean, Japanese or European companies.

We have those three problems with the protectionist threat

With regard to countervail and unfair trade statutes, supporters of free trade would not be concerned with this. They would say let us not be worried about trying to get any change in the US laws in this area because the government should not be involved in assisting Canadian companies at all. These individuals would not have any concern with those statutes. The government should play no role, has no role and, therefore, countervail and unfair trade statutes pose no threat.

They would focus, though, on some of the dumping and the sideswipe. There we do have some problems, and it was imperative that we got in the agreement some type of mechanism to provide some insurance for Canadian companies.

The question arises, does this agreement do anything to give Canadian companies insurance in these areas of dumping, escape clause provision and sideswipe? Our response is that the agreement did offer some protection in the area of sideswiping. It has been able to, or it appears to be able to, exclude Canadian companies from complaints that are initiated against companies from other countries. However, it has done nothing in the area of dumping and escape clause provisions. There has been some minor improvement in insurance to Canadian companies. However, I argue, it has been at an extremely excessive cost.

Again, to understand why I believe this agreement is flawed, we have to get back to the economics arguments underlying the two key arguments in

support of the agreement, the potential productivity improvements that may emanate from free trade.

Unfortunately, that argument assumes that a country's comparative advantage is given, companies have no role to play in developing and sustaining the competitive advantage and, essentially, that once the market is open, companies will automatically gain a competitive advantage in the US market without ever examining how they developed it, whether they have it or whether they will be able to exploit an increased access to the market. There is the first problem. To take advantage of improved access to the US market, you have to have a competitive advantage. Economic arguments supporting this particular position simply assume that Canadian companies have a competitive advantage.

Second, the economists and others that support the free trade agreement and are staunch supporters of free trade also tend to base their arguments on traditional economic theory. That essentially says there is no role for government to influence comparative advantages for a country or competitive advantages as a factor.

Here, again, theoretical literature and empirical observations on the behaviour of companies and governments in many countries, including Canada and the US, demonstrate that there is a significant role for government to play in influencing the evolution and development of comparative advantage and the creation of competitive advantages. These arguments are, by and large, ignored or disregarded--or simply individuals are not aware of them--by people that advocate or are strong supporters of free trade.

Finally, the productivity process as espoused by supporters of free trade is much more complex than they understand it to be. They simply believe that if you engage in longer production runs and produce fewer products in a plant, there will be rather dramatic productivity benefits. As I say, productivity is a much more complex process. It has to do more with companies moving into sort of high range, high income elasticity, high value-added products. This necessitates research and development investments and development of competitive advantages, and the productivity benefits that stem from this are probably much larger and much more significant over time than any potential productivity benefits from longer production runs.

Given these arguments and what I see as the weaknesses, this suggests to me that there is an important role for government. Government policies can be critical in shaping the development of industry, shaping competitive advantage and comparative advantages.

Admittedly, as I point out, many government policies are mistakes. Just because there is a role, as I believe, for government policies, it does not mean that all policies are worth while. We can easily draw up a list of programs that have been utter disasters. Nevertheless, there is a role for government policies if they are wisely implemented and if they are targeted to achieve certain objectives.

The ones I point out here are measures to increase the ability of Canadian firms to engage in research, design, development and manufacturing, measures to increase the flow of financial capital to firms to invest in these activities and measures to improve the export orientation of Canadian firms. Policies with these objectives are critical in order to ensure that Canadian companies will be at the frontier in many areas, will develop competitive advantages and will be able to take advantage of any liberalization of trade.

As a result of this role, I suggest that the two principal failures of this agreement are: (1) it gave away two important policy levers, the Foreign Investment Review Act and the ability to engage in sort of a dual pricing for oil and natural gas; and (2) it essentially gave the US government the unilateral authority to decide what government policies in Canada are acceptable to the US, and thus fair, and what policies are not acceptable, and thus unfair.

We no longer have the right, under this agreement, to decide what we can do or cannot do to assist Canadian companies. We can start and try whatever we want. If the policy proves successful, we can be sure that under the US trade legislation some complaints will be initiated, and this dispute settlement mechanism that is incorporated into the agreement will do nothing to prevent US decisions from determining what the final outcomes will be.

Given the way this mechanism is set up, it will be very difficult for any tribunal, regardless of how objective it is, to overrule any US decision. The US government and its various agencies now have the unilateral authority to decide what we can and cannot do to try to assist Canadian companies.

As I said, the implication of this is that we forgo the opportunity to shape our future development, and this will result in significant productivity and employment growth losses over time. I am not saying we are going to have absolute losses, but we are going to perform much poorer than we otherwise would.

Obviously then the question arises, what is the alternative? As I point out, the alternative is not the status quo. I am not saying, "Let us tear up the agreement," or "We should never have entered the negotiations." The status quo is never a viable alternative. It really is not practical. Our environment continually changes and we would have been forced into different types of agreements, whether with the US or with other countries on a bilateral or multilateral basis.

The alternative, as I saw it, was the following: We should have negotiated the elimination of tariffs. Whether it is over a five- or 10-year period does not seem to make that much difference, in my opinion. Second, and this is the important part, we should have negotiated and set out quite clearly what government policies are acceptable to all parties. That should have been put, probably at the outset, in the introduction to the agreement, and then everything else that followed from that would have been consistent with that statement. That would have been the key to the agreement, specifying what we can do and what we cannot do; what the US can do and what the US cannot do. Then this concern about US protectionist threats, etc., really would have been rather irrelevant and the need for a dispute settlement mechanism again would have been irrelevant.

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Admittedly, the agreement does allow for future negotiations to try to set out what can and cannot be done. Unfortunately, there is no guarantee that these future negotiations will come up with any list of acceptable policies. In the meantime, we are sort of at the whim of the US and its discretion as to what we can and cannot do in this area. So there is the flaw.

As I say, having stated what I would have liked to have seen in the agreement, it still leaves a question. Given the fact we have this agreement, others will ask: "Should we tear it up? What do we do then about the US protectionist threat?"

I say that there were options. We did have options that we could have pursued and perhaps negotiated a better deal with the US.

The options were, first, to do what we had done in the past, case-by-case negotiations when there are trade disputes. Canada had a relatively good track record prior to September 1984. Once Mulroney came in, for some reason, they did not seem to pursue aggressively the case-by-case negotiation strategy. It seemed that they were willing to concede on every trade dispute. I may be a little cynical, but perhaps they did this to try to improve their case for the need of some type of dispute settlement mechanism.

I do not have numbers offhand, but from what I remember of a presentation made by Allan Gotlieb at a conference in 1984, I think he cited something in about the previous five years, so over the period 1978 or 1979 to about 1984 there were 10 disputes or so and about eight of them were settled in favour of Canada and two were still in the process of being settled. Since then, there have been two or three that stand out and in all cases we have conceded to the US.

Another option we had is that we could have also enlisted the support of the other major trading partners and essentially said to them, "Let us co-operate to stand up to the US Congress and basically make it clear to the Congress that if it wants to pursue protectionist policy, we will simply retaliate." That would perhaps have a much stronger impact on Congress than what is happening, where the US is simply picking off one trading partner at a time.

Finally, I think we would have been able to make much better headway by using the US courts to appeal decisions that we did not find acceptable to us. The US courts have more leeway in deciding upon cases that are brought under the US trade statutes than would this current dispute settlement tribunal that has been incorporated into the agreement.

Those are my comments. As I say here, sort of in conclusion, and I will just repeat, the government can play an important role in influencing the future course of development of the economy. Trade policies should not preclude this role. There was a superior alternative to our bilateral agreement, which, unfortunately, I believe will be approved.

Mr. Morin-Strom: First of all, thank you, Professor Lazar, for appearing before the committee again. I recall your testimony and your warnings about the problems we faced in getting into the framework for negotiations that the federal government led us into.

I would like to focus on your very last phrase, in which you say you believe this bilateral agreement, unfortunately, will be approved. At this point, what do you foresee as the possibilities or the potential for stopping the agreement before the implementation date, January 1, 1989?

Dr. Lazar: On the US side, the Senate hearings may propose various types of revisions, but essentially they are going to approve the agreement. There will be some debate, but in the US it will eventually be approved. Whether it is by June or later, I do not think makes any difference. On the Canadian side, the federal government has the ability to pass it in Parliament. I suspect, depending on what public opinion polls tell them, they may pass it prior to an election, or if they suspect they are going to win an election, perhaps with a majority, they may just wait, sort of campaign on the agreement and then pass it after that.

All that can be done is that once the agreement is passed, perhaps various interested parties, provincial governments or whatever, might be able then to take certain parts of the agreement and test them in the courts. Essentially, that will be the only option. To stop it otherwise, I do not really see the potential at this stage. Public opinion is pretty well mixed. The way the arguments are going publicly, I see that support seems to be shifting towards support for the agreement.

Mr. Morin-Strom: What do you think the risks are to Canada in pulling out of the agreement before the implementation date of January 1 as opposed to what risks we face in pulling out of the agreement after January 1? We know that in terms of the political reality and the split on this issue, there is the very real possibility of the agreement being cancelled by Canada. What would the consequences be?

Dr. Lazar: The only risk I see is essentially the uncertainty that is created in the business community as to what substitutes, what replaces this, what courses of action the government will pursue to deal with complaints initiated under the various US trade legislation. That is what I see as the essential risk. The US is not going to retaliate in any way or try to penalize or punish Canada. It would not be in their interest and they would look rather foolish to their other trading partners. That would sort of wave red flags in front of the other trading partners and they would become very suspicious of the US. The real risk is in terms of the uncertainty created in the business community. That may forestall some investment for expansion purposes until they got a clearer sense what the government position would be to deal with trade complaints as they arose.

Mr. Morin-Strom: You do not see a real liability to a future government in cancelling this agreement, reflecting a philosophical position on it?

Dr. Lazar: There are greater problems if they cancel it after the agreement goes into force.

Mr. Morin-Strom: That is what I am asking.

Dr. Lazar: Yes.

Mr. Morin-Strom: What additional problems are there if the Prime Minister does not call an election before the end of this year and a change of government occurs after the implementation in 1989?

Dr. Lazar: If a new government withdraws from the agreement basically within the first six months or a year, again the risks are not that much greater than if the agreement is terminated at this stage. There is some uncertainty, but Canadian companies will not have geared up yet for the tariff reductions and they will not have altered in any significant way their planning to take advantage of whatever improved access there might be to the US market. There will not have been any fundamental changes in Canadian companies' strategies, let us say, by mid-1989. The risk still would be the uncertainty.

Mr. Morin-Strom: You are looking at the business risks as opposed to the political risks of retaliatory action in the US. You do not see that?

Dr. Lazar: I do not see the political risk being that significant. It is simply not in the US interest to retaliate. What are they going to do,

set an example? "We are going to punish Canada. It did not want to enter into a trade agreement which it claims is not in its best interest." The US comes off looking like a bully. I think that is the sort of position we should be using, exploiting for our own advantage.

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Mr. Ferraro: Thank you, professor, for your presentation today. I want to pick up on what Mr. Morin-Strom has touched on, wherein you feel that whether we get out now or on January 1, the effects would be minimal. We had a presentation from Scott Fairley a few weeks back, whom you may or may not know. He is a professor from the Ottawa area and a constitutional expert to some degree. He said that in his view, and I agree to some degree with what he was saying, if we were to tear up the deal--which I personally have some difficulty with, even though I do not like this particular deal, at least without having an alternative in place or in the throes of being looked at--in essence we would create a backlash of protectionism that would be unprecedented. I do not know his exact words, but basically that is what it is.

From a political standpoint, you have a situation, and I am hypothesizing but I think it is possible, that if US Congress gives the exemption to the omnibus trade bill requested by Canada, approves the deal after debate and so forth, and then Canada says, "Without an alternative in place, it's no deal," particularly with the election and the deficit, I have some sympathy, in the confines of the parameters I have stated, that the US would retaliate against Canada. You do not seem to think that would happen.

Dr. Lazar: I dismiss that possibility, I guess, for several reasons. One is, there is this omnibus trade bill lurking in the background. I think we have become excessively concerned about it as a potential threat. It may or may not pass. If it does pass, it will be considerably watered down. The reason I suspect that will be the case is because of the October 19 crash in the stock market. I think there has been some sense knocked into some of the senators and some of the congressmen in the US that a highly protectionist trade bill would be disastrous for the financial markets and they would be forced to withdraw. A President, whether it is Reagan or a new President, will veto any protectionist trade bill.

Congress may be trying to play it that way so it can then go back and say, "We tried to protect industry, but now we have to do something else." I do not think there is that good a chance of a highly protectionist trade bill passing. That is one.

Second, what happens if we withdraw? We may have an exemption from a trade bill, whatever it may be, that passes. If we tear up the agreement, we no longer have that exemption, which essentially means we are still subject to the same trade laws we are going to be subject to, anyhow, under the agreement. The provisions of the trade law may be a little tougher; I do not think they are going to be significantly tougher.

So that is the major risk. How do we cope with that? As I said, there are alternatives, case-by-case negotiations using the US courts, trying to present better cases to the US agencies, using their previous decisions to influence future decisions.

What is the only other threat possible? Congress may get very upset and introduce a particular protectionist law directed at Canada. I really think it is far-fetched to expect Congress to do that, to pick on Canada because it

backed out of a trade deal. Every country has the right to abrogate treaties if it sees fit to do so. If the US Congress claims that Canada did not have this right and should therefore be punished for doing so, it will not look good in the international community. They will only be making a mockery of themselves and will be forced to withdraw. They are sensitive to world opinion and are not going to try to use Canada as a scapegoat for not being able to negotiate a trade agreement which Canada did not view as being favourable.

Mr. Ferraro: Let me ask you another question. I totally agree with your scenario of pre-1984 and our record at the General Agreement on Tariffs and Trade. We are batting about .800, eight out of 10, I think that is the figure. There was an article, I think, by--

Dr. Lazar: This does not refer to going to the GATT.

Mr. Ferraro: Are you talking about the judicial thing?

Dr. Lazar: No, I am just talking about External Affairs talking with the State Department, our Prime Minister talking to the President and just negotiating some type of settlement of some of these cases.

Mr. Ferraro: Thank you for clarifying that, but I think my line of questioning pertaining to our appeals to the GATT would be very similar. I think our record has been very good, pretty close to 80 per cent.

Dr. Lazar: Yes.

Mr. Ferraro: My concern is that, hypothetically, if this deal goes through--and I believe it probably will--would there not be a pretty heavy compulsion for the federal government, instead of going to GATT as its final court of ruling--and you have a choice, either GATT or through this tribunal--would there not be an obligation, I guess to a greater degree if the Conservatives get back into power, to use the dispute settlement mechanism as opposed to going to GATT, and subsequently our chances would be less?

What I am saying is, if they go ahead with this deal, they cannot very well say, "We are going to appeal the decision in the United States or Canada"--or in the United States in this case--"to GATT." They would almost be compelled to go to this settlement mechanism, which is useless.

Dr. Lazar: That is right. If they go through with the deal, they will be forced to use the dispute settlement mechanism. That will preclude three options: (1) using the US courts; (2) engaging in, as I say, case-by-case negotiations, having various agencies of the Canadian government negotiate with the US government; or (3) going to the GATT. So we exclude three options which are superior to this mechanism as it is in place.

Mr. Ferraro: The final question I have--and it is probably a difficult one--I have been dealing with this thing for two and a half years and I am sure you have been dealing with it for the same, if not longer, period. I am still trying to figure out what the US gave up in this poker game. Maybe you can enlighten me.

Dr. Lazar: All I can see that they can claim they gave up was some autonomy in the use of their trade legislation, some autonomy in the sense that there is now a sort of supernational tribunal that can decide whether or not the various agencies interpret their own domestic laws properly.

Mr. Ferraro: But cannot make a binding settlement.

Dr. Lazar: That is right.

Mr. Ferraro: Or change the law.

Dr. Lazar: That is the only thing that I can see the Americans are claiming they gave up. There is nothing else I see in the agreement where they made any concessions to Canada.

The last time I was before this committee, my greatest concern with the negotiations was that while it was an important political issue to the Canadian government, it was really a nonissue to the Americans. Whenever you enter into a bargaining situation with that type of background, obviously for the person to whom it means a lot, that person is going to be willing to concede a lot to get some type of agreement. For the other party, the Americans, by and large their view was: "Let us see what we can get from the Canadians. The more we can get, the better. If we have to make some minor face-saving concessions to get an agreement, maybe."

Mr. Ferraro: I guess the frightening thing about that too--and I will end with this--is that we gave up sovereignty issues, whether it is energy or foreign investment or our right to have regional programs. One of the confusing and I think unintentional things about this agreement that was signed by the federal government is that they are going to have ongoing discussions, and God only knows what we will give up there.

Dr. Lazar: Yes. We can speculate.

Mr. Mackenzie: But you still will not tear it up.

Mr. Ferraro: I do not think we should, not without an alternative.

Mr. Beer: I suppose looking at the impact of the agreement on Canada, it would seem to me that one of the major problems for us, in listening to your remarks and the answers to the questions, is that we have lost the ability or will lose the ability for our government to do certain things with respect to the economy. In this country, given our relative size and given our size vis-à-vis the United States, that role that historically the federal government has played, and indeed some of the provincial governments have played, has been a very important factor and it is critical.

Would it be fair to say we have lost, in your view, with this agreement some real leverage that we just will not be able to exercise in the future?

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Dr. Lazar: Most definitely. Let me add just a couple of points here. Remember, it is a Conservative Party policy--pro-market, anti-government intervention--so the fact that this agreement basically limits to a greater extent what the government can do to intervene in the marketplace is consistent with that philosophy. So if you look at Conservative Party philosophy, there are no inconsistencies here. They favour less intervention. They have their reasons for it. I would argue they are wrong, but nevertheless they have their reasons for it. This agreement is one way of ensuring that future governments, if they do not tear up the agreement, are constrained.

The problem I have, as I say, besides the fact that I believe they are

wrong, is that if they want less government intervention, they should have pursued this through domestic policies: simply cut back on various programs, saying: "There is no role for this, no role for that. We do not believe government should intervene." If future governments wanted to change this and introduce new programs, fine, at least the option was there. Going the trade agreement route is essentially using an international treaty to try to tie the hands of future governments and make them behave in a way that is consistent with Conservative Party philosophy. I think there are some serious political and democratic issues involved there.

Finally, what I find--perhaps "interesting" is not the word--not too surprising is that you have several of the provincial premiers who were staunch supporters of the agreement during the negotiations, and shortly after the agreement was signed, they were out there saying that the government has to do this and that for them to help stimulate industry--for example, the submarines. Bourassa was out there saying there have to be certain concessions to Quebec, certain spinoffs to Quebec. I believe the western premiers have been asking the federal government for assistance for development of their oil and gas sector and certain industries. These premiers simply do not see the inconsistency between the demands for further government assistance through various programs and this particular trade agreement, which essentially gives the United States the complete right to decide whether these programs are acceptable or not.

Mr. Beer: In effect, it really does provide the US with the means of influencing policies that we might want to undertake as a country.

Yesterday we had as one of the witnesses a gentleman from the lumber industry who was talking about how, under the softwood lumber deal, they have to allow Americans look at their books. That whole process has now been enshrined, if you like, in the agreement and clearly would have implications for other kinds of issues. It just strikes me that in some of the testimony we have had from certain of the business sectors, they seem to be focusing primarily on what, in their view, are business-related reasons for supporting the deal without fully appreciating the importance that I think government intervention at times has had to play in our economy. Or, as you suggest, they just do not agree with that, which is perfectly valid as a point of view. But I would think as a comment that it is more appropriately played out perhaps in an election or someplace where that issue is very clearly put to the people and they have an opportunity to speak on it.

Mr. Chairman: When you were talking about government forcing the hand of future governments, I think you perhaps would have included provincial governments as well as federal governments.

Dr. Lazar: Most definitely. If the provincial governments try to take a more active role in, let us say, industrial development, if they succeed, then you can again be assured that there will be some type of retaliatory action, some action initiated under one of the US trade laws.

Mr. Chairman: That is something we have to consider, presumably, in the future in contemplating all kinds of legislation that we are about to pass, or grandfather or whatever we intend for it with legislation for other reasons.

Dr. Lazar: Yes. I have no objections to any government in power deciding that government should be scaled back. If that is what they believe, if that is how they got elected, that is fine. Let them then implement the

policy, as long as the option exists for future governments to introduce the types of policies, pursue the sort of changes they view as necessary. I think what is totally inappropriate and a major problem is when one government tries to tie the hands of future governments indirectly by international treaty, by this type of agreement.

Mr. Mackenzie: I think you put the argument on that score very effectively, Mr. Lazar. Is it also putting it the same way to say that what we are in effect doing is taking a step that is going to ensure the marketplace is really going to make decisions and guarantee decisions that previously the government had some role in?

Dr. Lazar: Let us clarify it when you say the marketplace makes the decisions. The marketplace is not as pure as we believe it to be. If we take it either in Canada or the US, when things do not go well for the participants in the marketplace, they then go to government to lobby for various types of assistance or protection. Essentially, what we are doing here is that we are allowing US companies to dictate how successful Canadian companies can be in the US market. That is essentially what--

Mr. Mackenzie: I could have said major corporations--

Dr. Lazar: Yes.

Mr. Mackenzie: --but to me the bottom line is still that the marketplace is where, I think, the current government believes the decisions should be made. I think it is trying to ensure that. I think it is also an extremely dangerous position for future governments to have their right to make any changes restricted in any way. This is probably my main concern in this whole debate.

Dr. Lazar: Mulroney and his government have every right to pursue deregulation, less government intervention and other measures that would promote the market if that is what they in fact desire. They have every right to implement domestic policies along those lines. A future government, whether it be Liberal or New Democratic Party, if it decided that was not the right thing, would have every right to change the policies. This agreement, though, changes that whole process. That is a significant difference from trying to implement the types of policies that are consistent with their philosophy by domestic legislation as opposed to enshrining it through some international agreement.

Mr. Ferraro: Professor, I am not sure--I know you are not an expert on American law--but in this agreement or your understanding of this whole scenario, are there any restrictions on the Americans' ability to have a regional program or indeed to have a two-price energy system?

Dr. Lazar: They would not be able to engage in a two-price energy system.

Mr. Ferraro: So that is reciprocal.

Dr. Lazar: They are under that same constraint. We have essentially a continental energy policy. On regional policies, they are not prevented from doing so. If you read the agreement as it is stated at this time, we are not prevented from engaging in regional policies either. However, those regional policies may be subject to disputes under the US trade legislation. US regional policies may also be subject to disputes under Canadian trade

legislation. If you look at the history of the legislation in both countries, it is more likely that a regional development policy in Canada that succeeds will lead to some type of complaint arising in the US. A regional development policy in the US that succeeds is highly unlikely to lead to any complaint here in Canada.

Mr. Ferraro: To shift a little bit, do you know whether there are any restrictions, either on a state level or a federal level, on Canadian investment in or acquisition of American companies?

Dr. Lazar: You still have restrictions on investment in particular key areas, transportation, broadcasting, utilities, and there are certain other key areas.

Mr. Ferraro: Is that federal?

Dr. Lazar: Federal--that impose certain limitations on foreign investment in the US. We have certain sectors where we have still maintained, even under the agreement, restrictions on foreign investments. It is up to the government whether it wants to enforce them or not. There are some foreign investment restrictions still in place in both countries.

What will happen over time is that if Canadian companies become quite aggressive, there is always the possibility that some state may introduce legislation to block takeovers by foreign-based companies. This agreement does not preclude that and US companies can then hide behind state laws. In Canada, as I say, we do not have the laws in place and it is highly unlikely the federal government, at least a Conservative federal government, is going to introduce restrictions on foreign investment. I doubt that provincial governments could try to duplicate the type of laws that various states are implementing to prevent takeovers of companies by foreign-based companies.

Mr. Ferraro: I was just trying to get the relationship now. We have the \$150 million and \$500 million, direct and indirect, levels being proposed, and I read recently where the US is quite concerned about the degree of Japanese and German investment coming into the US and, to some degree, to Canada. I am wondering whether they had any levels federally.

Dr. Lazar: They do not have any level. It is just--

Mr. Ferraro: Just primarily resource sectors.

Dr. Lazar: If, all of a sudden, a major US company is threatened with a takeover--

Mr. Ferraro: Then they could.

Dr. Lazar: --you can be assured that Congress will look into the matter and perhaps decide that takeover is not in the long-term interest. It can use defence as an argument, the interests of the US, and prevent that takeover. So they have more leeway.

Mr. Chairman: Professor Lazar, thank you very much. Your presentation has been enlightening and wholesome, in that it has given us a lot of cause for interest. I think it has given the Liberals and the New Democrats some arguing points.

Mr. Ferraro: Too bad Mr. Sterling left early.

Mr. Chairman: I appreciate very much your thoughtful assistance to us.

Dr. Lazar: Thank you very much for inviting me. It was my pleasure to be here.

Mr. Chairman: Members of the committee should remember that the committee will be meeting in room 228 at two o'clock. For those who are watching on television at two o'clock, they will see the standing committee on administration of justice dealing with the auto insurance legislation.

The committee recessed at 12:02 p.m.

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

TRADE WITH UNITED STATES

WEDNESDAY, JANUARY 27, 1988

Afternoon Sitting



STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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VICE-CHAIRMAN: Ferraro, Rick E. (Guelph L)

Haggerty, Ray (Niagara South L)

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Neumann, David E. (Brantford L)

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Substitutions:

Beer, Charles (York North L) for Mr. B. J. Nixon

Dietsch, Michael M. (St. Catharines-Brock L) for Mr. Neumann

Sterling, Norman W. (Carleton PC) for Mr. Villeneuve

Clerk: Carrozza, Franco

Staff:

McLellan, Ray, Research Officer, Legislative Research Service

Witnesses:

From the United Food and Commercial Workers International Union:

Rannachan, William, International Representative

Lumsden, Walter, Assistant Director

From the Ontario English Catholic Teachers' Association:

Cooney, Jim, President

From the Business Council for Fair Trade:

Conrad, James R., Executive Director

Buck, Roel, Director, Automotive Parts Manufacturers' Association of Canada

Cathrall, Annabel H., Professional Engineer, Pate Cathrall Inc.

Seymour, Desmond, Advisory Board Member

Blawatt, K. R., Manager of Marketing

Pate, Ronald, Professional Engineer, Pate Cathrall Inc.

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Wednesday, January 27, 1988

The committee resumed at 2:02 p.m. in room 228.

TRADE WITH UNITED STATES
(continued)

Mr. Chairman: We have a busy afternoon. The first presentation is from the United Food and Commercial Workers International Union. We have with us Walter Lumsden, assistant director, and Bill Rannachan, international representative. They have a brief, which is in front of you. Gentlemen, if you could lead us through it, I am sure it will elicit some questions. We have a total of an hour.

UNITED FOOD AND COMMERCIAL WORKERS INTERNATIONAL UNION

Mr. Rannachan: Honourable chairman, honourable members of the committee, the first thing I would like to say is that it was the intention of our Canadian director, Clifford Evans, to be present today, but unfortunately he had a very important previous engagement. He had a very busy itinerary. He tried to clear it, but he could not do it, and he apologizes for not being here today. It sincerely was his intention. If I can refer you to the submission, I am pleased to be here to talk to you about our members' views on the Canada-US free trade deal.

The organization I represent, the United Food and Commercial Workers International Union, has over 160,000 members in Canada, of which 70,000 live and work in Ontario. We represent workers in over 330 bargaining units in Ontario, ranging from two to 13,000 employees and have a strong presence in most major Canadian industries, as follows: meat packing, food processing, fisheries, textile, carpet manufacturing, boot and shoe, leather tanneries, beverage, retail stores, trucking, warehouse and distribution employees, to name a few. As we also represent nursing home, hospital and funeral home workers, it has been said that we organize from the cradle to the grave, and we are very proud of that statement and accomplishment. Attached to this document is an entire list of the industries in Ontario for your perusal.

Our members come from every ethnic, cultural and religious grouping in Canada. Our members are evenly divided, 50 per cent male and 50 per cent female, and they live in big cities and rural areas of every province.

Recently, we read a 12-page document drafted by the federal Department of Regional Industrial Expansion, DRIE. A little paper called Regional Adjustment--Free Trade, it can only be described as having all the markings of an economic horror story for most provinces in Canada.

This document forecasts substantial job losses in the following industries throughout Canada: breweries, textile, clothing, car plants, fine papers, sanitary papers, commercial printing, soaps, cleaners, truck bodies, trailers, pleasure craft, major appliances, furniture, leather, nonrubber footwear, jewellery, meat processing, potatoes, dairy products, frozen fruit, vegetables, confectionary, sugar, feed, grain, wine, toys and games, motion

pictures, sound recordings, converted paper products, converted wood products, petrochemicals, automotive parts, automotive tires, major appliances, construction and material-handling equipment, industrial electrical equipment and electrical wire and cable, to name a few.

There are no specific figures reporting possible employment gains for each province. However, it is very noticeable throughout the document that the words "employment gains or increased profits" are used when forecasting the future under free trade. For reasons unknown to us, the federal bureaucrats who wrote this document cannot seem to differentiate between future jobs and increased profits. They further report, regardless, that labour may not possess the job skills to allow full mobility between "losing and winning sectors" within a region. Conversely, net employment gains in a province may not translate into a reduction of the unemployment rate.

After reading this document, it becomes obvious that the future for workers displaced by free trade in the eyes of DRIE is as clear as mud, or alternatively, leaves us in the position of sword fighting with a bunch of clouds.

We now bring to your attention a scenario of what effect the free trade pact will have on a number of industries within our jurisdiction. Our sources of information are as follows: employers, organizations representing employers and union members.

The food processing industry: Employers in the Ontario fruit, vegetable and specialty food processing industry report their complete inability, except in a few specific instances, to compete in export markets and with imported products. They quote our Canadian climate, geography and government policies as rendering the industry uncompetitive in a free trade market.

This group is concerned that a decision may be about to be made to discard the entire fruit, vegetable and, specifically, the food processing industry without considering the nature and scope of the impact on our economy. Although there are no specific figures reported on job loss within the industry, it has been stated that free trade will create major displacements.

The Canadian Meat Council, representing employers in the meat processing industry, had this to say, and we quote from its policy paper on free trade:

"Labour costs are a major concern. Presently, they place Canada at a disadvantage. A quick movement to free trade would result in either a labour rate adjustment or a shift from Canadian to US jobs.

"With the end of national labour agreements in the US, it is difficult to determine an average or typical wage rate. The figure is probably somewhere around US\$8.50 to US\$9, but there are some slaughtering plants close to the border with rates of US\$7.50 or lower. The present base rate in the Canadian industry is \$11.99, with a \$9 starting rate.

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"A second problem centres in Alberta and British Columbia where the specialized beef plants face difficult competition from nearby US plants. The US plants have a wage rate, US\$7.50, which gives them a labour advantage of \$1 to \$1.50 per hour. Such a discrepancy can run to \$50 per week per employee and \$2,500 per year--a considerable disadvantage. Canadian cattle can and do

bypass the Canadian plants to be slaughtered in the US, with the beef shipped back to Canada. Unless regional wage rates can be kept in line, it is obvious the business and the jobs will shift to the US."

Our meat processing industry, one of Canada's largest industries, employing thousands of Ontarians, will face a crisis as a result of free trade. It has been reported that the US meat industry already faces excess capacity as a result of a decline in consumer demand for meat products. The removal of trade barriers would allow US packing houses to increase their sales to Canadian distributors and food stores, leaving Canadian workers to absorb the cost through job loss and plant closures.

The poultry industry: There are 15,000 process and hatchery workers in Canada. Seven thousand to 8,000 of these workers are in Ontario and they all depend on the industry to provide them with an income.

This industry is witnessing a move by large Canadian distributors and processors to bring into Canada low-cost chicken, partially and completely processed in the US, in preparation for free trade.

Poultry workers are amongst those most vulnerable to the elimination of nontariff barriers. At present, a national marketing board limits imports of cheap birds from the southern US. The need for this protection arises from our colder climate, which makes it necessary for the poultry growers to build more expensive barns that must be heated for much of the year. The lower overhead costs in the southern US, plus the lower labour rates, would make it impossible for the Canadian poultry industry to compete with US firms.

We are informed that removal of the national marketing boards will cause untold damage to the industry, and within a short period of time there will be no poultry industry in Ontario.

Footwear, leather and textile industries: The footwear and leather industry has already experienced the effects of experimental free trade when the federal Conservative government announced in the fall of 1986 the removal of import quotas on men's footwear. Within one year, Beardmore Tannery in Acton, Ontario, commonly called Leathertown, closed its doors with the loss of 256 unionized jobs.

Beardmore was the only manufacturer of sole leather in Canada: a community industry that had operated successfully for 142 years. The largest employer in historical Leathertown went belly up when import quotas were removed and Canadian footwear manufacturers found they could not compete with the cheap goods that flooded the Canadian market.

The most galling part for workers who lost their livelihood is the reports from the industry that raw cattle hides are now being exported to countries that are protecting their tanneries, such as Brazil and Argentina. The hides return to Canada, via South Korea or Taiwan, in the form of finished shoes.

Shoe manufacturers such as Savage Shoes, Cambridge, and tanneries such as A. R. Clarke and Co., Toronto, and Collis Leather, Aurora, to name a few, either closed their doors or continued production on a short work week, displacing and laying off hundreds of workers.

These once thriving Canadian industries have suffered serious setbacks and in the past two years have faced stiff competition from low-wage countries in Europe, Asia and South America. The industry now understands that the free trade experiment was not free and any extension of free trade can only mean the death knell to hundreds of small companies who, together, employ thousands of workers.

The clothing industry: It is estimated that over 100,000 Canadians are employed in this industry across Canada and that over 30,000 are employed in Ontario. The majority of firms, including US branch plants, which opened in Canada to escape tariffs, do not export. We feel it is fair to assume that the elimination of Canadian import duties would result in a shift in production to the US. While some potential exists for a gain in some areas, such as furs and high fashion wear, the loss of jobs to Ontario could exceed 10,000.

The trucking industry: We believe that when you talk about free trade, you must also talk about deregulation. As we have members in the trucking industry, we shall comment on our concerns in that area, particularly as some of our members are already out of jobs in Ontario.

The members I speak of worked for Frederick Transport. This employer has closed terminals in Ontario and opened terminals in the US in what he describes as preparation for deregulation. Another ploy of this employer and others is to offer their trucks for sale to the employees and hire them as brokers. This way, when the industry suffers a loss, it will be the brokers who will suffer financially.

This is a Canadian industry that was reasonably stable until two years ago when the federal government announced and unofficially promoted transport deregulation. Since then, a number of family-run companies have sold out to larger companies because they could not compete in the cut-throat market created by deregulation. We foresee in the very near future one or two multinational transport companies running the entire Canadian trucking industry.

One more worrisome aspect of deregulation our members report is that some employers have cut back safety maintenance programs in an effort to reduce costs.

The beer industry: Here is an industry which seemed destined to change, with or without the Mulroney deal. From the very beginning, the employees in this industry were told that beer would be included in the trade deal. It was easy to show how many jobs would be lost because of the structures of this Canadian industry, so beer was dropped from the deal.

We did not celebrate. When dealing with a government such as the federal Conservatives, we all have reason to be suspicious. We suspect beer was dropped by the negotiators because they could not argue against the job loss and severe change to this Canadian industry, all the while knowing they would achieve their objective when the GATT ruling came.

The employers will survive by closing plants and/or moving to the US, which means thousands of jobs will be lost in Ontario and probably a change to our distribution system. We know beer and wine in the grocery store will please some, but we, as Canadians, and in particular Ontarians, have chosen not to go this route. Is it not unfair that we may now have to change all this because of the actions of our federal government and the wishes of other countries?

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The wine industry: A picture of gloom and doom is forecast for workers in the wine industry. Employers, individually and collectively, have done their research and presented submissions to federal and provincial legislators, clearly pointing out that the Canadian wine industry cannot survive under the present negotiated free trade pact.

Canadian wineries report that if they are forced to contend with free trade, to compete they will have to centralize production, closing many plants and placing hundreds of workers on permanent layoff. Direct industry job loss as a result of free trade is estimated in the thousands, while indirect job loss in the supplier industries could feasibly triple the total number of Canadian jobs eliminated.

The grape growers, who are an integral part of the Canadian wine industry, report possible job losses of 10,000 to 15,000 full-time and part-time workers. In the Niagara region of Ontario, historically known for its grape-growing and wine-making industry which dates back to 1874 and is an industry which traces its roots back before Confederation, the projected job losses could reach 10,000 people.

The industry has stated clearly that it is about to be devastated by a free trade pact that takes everything away from it and gives nothing in return. Family farms that have been worked by successive generations for over a century will go out of production. Agricultural land that is the envy of farmers throughout Canada will disappear and an industry that provides thousands of jobs to full-time and seasonal workers will go down the drain.

As a union representing workers, we cannot sit idly by and watch a stable, viable community industry being destroyed, nor can our provincial government. Mulroney must be told that this is not just a bad deal, it is a sellout of total communities that depend on the wine industry for their very existence.

The fishing industry: A recent preliminary ruling by the General Agreement on Tariffs and Trade on a United States complaint has the entire fish-processing industry very worried as to its future.

British Columbia spokespersons for the fishing industry are very much concerned that this ruling will not only change Canadian conservation measures for the protection of certain species of fish, it will virtually destroy the fish processing industry, with an estimated 6,000 to 8,000 processing jobs being at risk.

Although the ruling is specifically aimed at regulations that protect the BC fishing industry, federal government officials do not rule out the possibility that it may have an impact on the Atlantic provinces' fishing industry.

We have no estimates at this moment from the Maritimes fishing industry as to projected job loss. However, without research, there is one item of knowledge I believe we share. The BC economy and, particularly, the Atlantic provinces' economy need jobs, not loss of jobs. We believe resource management of fishing stock and not free trade would have benefited those employees in the fishing industry in Canada.

One more disturbing factor, we are told, is that, if the free trade pact

is implemented, Canada is locked into the GATT ruling and denied the right of appeal. Surely this can be considered only as an infringement on our sovereignty.

We wonder what our so-called Canadian negotiators were doing. Is this another situation similar to the beer industry? We suspect our negotiators removed the issue from the bargaining table with full knowledge that the GATT preliminary ruling would resolve the US complaint.

The soft drink and fruit juice industry: In Ontario, approximately 5,000 workers are employed in this industry. We have few details from these companies as to the effects of free trade. However, this much we do know: a few years ago, Minute Maid opened a plant in Peterborough, Ontario. They told us they were doing so because they could not remain competitive in Canada by producing and shipping from the US. The Peterborough plant was to employ 100, with further expansion in western Canada projected. This was before talk of a trade agreement. Now there is no talk of expansion and only 35 jobs have been created.

Most employers in this industry are controlled by parent companies in the US who report excess production capacity and who are looking for new markets. Could it be that with a free trade agreement Minute Maid and others will be able to produce in the US and remain competitive? We believe so.

The scenario we have provided you with as to the future of a number of recognized Canadian industries surely must cause our provincial government and all Ontarians, regardless of their status in life, much concern. With this concern in mind, we comment further on the free trade agreement by providing you with a few of the thoughts running through the minds of the workers we represent, not only in Ontario but throughout Canada.

Dispute settlement: We do not believe, even remotely, that the proposed panels do anything to provide an effective dispute settlement tribunal. The panels proposed will have no power to do anything other than judge whether American trade legislation has been applied properly. In the Ontario provincial government review of the analysis of the dispute settlement prepared by Blake, Cassels and Graydon, it states in part, "Without effective dispute settlement procedures to control US antidumping and countervail actions and other restrictive laws and policies, Canada-US free trade, for Canada at least, will not be all that free."

The conclusion to this review states, "The deficiencies in the dispute settlement mechanisms ensure that the Canadian ambition of increased access to the US market will not be fully achieved, by this agreement at least."

This analysis by your advisers certainly brings shock and fear to all of us in the union movement. The obvious question is, how can one even consider an agreement without a defined dispute settlement arrangement that considers both parties as equals?

We agree that the final text of the agreement provides slight cosmetic changes to the dispute mechanism by the replacement of judicial review by domestic courts with a bilateral panel. However, during the initial five years of the agreement, the unilateral application of countervailing and antidumping duties will continue. That is to say, the respective laws of each country will apply within their own jurisdiction during this period, as they did before the agreement. Should the panel determine that the law was properly applied, the matter is closed.

Yes, Canadians will be allowed to sit on the panels to judge, which mostly means we risk lending legitimacy to American protectionist laws. We will now be hanged by Canadian judges. The federal government tells us we have to be satisfied with this half a loaf. We consider it more like a few crumbs.

The service sector: Our domestic economy is dominated by the service sector in that it accounts for about two thirds of the national income and provides about 70 per cent of the jobs in the country.

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One striking feature of the agreement is the inclusion of services. The government emphatically denies that health, education, social services and day care are part of the agreement. This assertion is, in the least, misleading to all Canadians. The new text, chapter 14, specifically names the management of the following services as being covered:

Hospitals: general hospitals, rehabilitation hospitals, extended care hospitals, mental (psychiatric) hospitals; addiction hospitals; nursing stations and outpost hospitals; paediatric hospitals; other specialty hospitals.

Other institutional health and social services: homes for personal and nursing care; homes for physically handicapped and/or disabled; homes for mentally retarded; homes for mentally handicapped and/or disabled; homes for emotionally disturbed children; homes for alcohol/drug addicts; homes for children in need of protection; homes for single mothers; other institutional health and social services not elsewhere stated.

Noninstitutional health services: ambulance services; drug addiction and alcoholism treatment clinics; health rehabilitation clinics; home care services, including home nursing; public health clinics/community health centres; other noninstitutional health services.

All other aspects of other commercial social services included in the agreement are as follows:

Medical and other health laboratories: medical laboratories; radiological laboratories; combined medical and radiological laboratories; public health laboratories; blood bank laboratories; other health laboratories.

Post-secondary nonuniversity education: schools of art and the performing arts; vocational schools, trade schools and business colleges; post-secondary nonuniversity educational institutions.

The other broad service categories included are: agriculture and forestry services; mining services; construction services; distributive trade services; insurance and real estate services; commercial services; computer services; telecommunications services; tourism services.

The agreement now recognizes the legal right of US firms in these areas to establish in Canada and the right to be treated in all cases just as Canadian firms. However, while the agreement guarantees the right of US firms to invest and establish in Canada, it does not require that they actually be located in the country to receive the benefit of being treated exactly as any Canadian firm. You will find that in article 1401(8).

In other respects, the government's interpretation of the agreement is

also misleading. For example, it maintains that child care is not covered. Child care is not listed in the chapter on services, but US child care firms are granted the right to invest and establish in Canada and to be treated just as any Canadian firm in the chapter on investment. That is, child care is not specifically exempted in the agreement, as has often been claimed by government spokespersons.

One particularly worrisome aspect of the agreement is that although not all services are named in the agreement, there is a specific article, article 1405, which provides for future implementation of services not now covered. It clearly states the intention to extend the agreement to include "additional services and for identifying further opportunities for increasing access to each other's services markets."

Essentially, the services provision is the thick edge of the wedge. It will be extremely easy in the near future to include services which so far have not been specifically named because of public concern.

Social programs: We are concerned that Canadian social programs such as unemployment insurance, health insurance, Canada pension and old age pension could be branded as subsidies.

US companies whose labour contracts require them to provide health insurance for their employees have to pay private insurers a lot more for it than Canadian companies contribute to the financing of our universal medicare plan, for example. And because much of our retirement income system is based on the universal old age pension and guaranteed income supplement, both of which are funded out of general revenues, the payroll tax for the Canada Pension Plan is only a fraction of the levy on US employers for their social security program.

Canadian and US negotiators, under the terms of the free trade pact, are required to write a rule book on subsidies over the next seven years. As free trade advocates in the US have already suggested, Canadian social policies are indeed subsidies. We foresee an attempt by US negotiators to erode our universal social programs during the time period.

Nothing in recent memory has affected Canada the way these trade talks have. It is obvious that the Canadian negotiators did not meet their stated objectives and the dangers to Canada are many. Even if the process were to stop immediately and no deal was reached, many Canadians will suffer and Canada, as we know it, will change.

The federal Tories have admitted that some sectors would gain and some suffer under the free trade deal but have failed miserably to explain which. It is difficult for us to pinpoint exactly how many of our members will lose their jobs, but we know some will. When asked where these people will find jobs, the government is unable or unwilling to divulge where any any jobs are going to be created.

As stated, many of our members are women. They are employed largely in lower-paying jobs but do rely on these jobs to support themselves and their families. Many of these women, and certainly men as well, have some difficulty with the English language, putting them at a disadvantage when it comes to retraining or relocating for another job. Has the Mulroney government once explained what will happen to these people?

What most Canadians are asking today is, what did Canada really get in

the free trade deal? We are told there will be an erosion of markets that will lead to massive layoffs. We are told that in certain industries entire communities will be affected. On the other hand, however, there is some suggestion that free trade will create a number of high-tech jobs, but no one will tell us where or when and how many. It is like asking Canadian workers to look into a crystal ball to forecast their future.

What do we do with the thousands of workers who will be displaced and have no training for the high-tech industry, if indeed jobs are available? Who will be responsible for training them and who will bear the cost? These are but a few of the questions on the minds of workers. We consider it deplorable that a government which supposedly has the facts could enter into a free trade pact without setting up retraining programs for workers who are displaced.

The federal government's decision to enter into a free trade agreement with the US follows a system of economic logic that is not only suspect but would also require us to rethink our total ideas and principles of Canada as a nation.

We require a national debate to decide many questions. For example: What kind of country do we want to live in? Do we want to maintain our public service system, which secures for us a civilized standard and quality of life? Do we want to maintain standards of work and occupational health and safety which meet the needs of people rather than the need of profit? Do we want to maintain our cultural identity?

We say we do and that the impact of free trade will undermine our capacity to do these things in a serious way. We say a national debate must be held to discuss our future as a nation, that this national debate be held during a general election that must be called prior to any implementation of a free trade pact. Then and only then will Canadians, as the song says, "from Bonavista to the Vancouver Island" have an opportunity to peruse the pros and cons of the arrangement. Canadians must be given the right to decide their country's destiny at the ballot box.

Thank you very kindly.

Mr. Chairman: Thank you, Mr. Rannachan, for a very thorough résumé of the industries in which your workers are involved. Our first question--and I want you to brace yourself for it, because it is going to be a toughie--is from Mr. Mackenzie.

Mr. Mackenzie: I do not think it will be a toughie. I just do want to congratulate you--it makes me proud to be a trade unionist--for the brief, which is down to earth. It certainly speaks in terms of ordinary Canadians and is very specific in terms of those areas that your members are concerned about. One of the difficulties we have had, which you refer to in your brief, is that there may be a lot of people who think trade unionists are suspect, but they are usually talking in terms of the concerns of their immediate members. It is pretty well a grass-roots approach to the problem.

People who have appeared before this committee tell us that we should not be looking at lists of winners and losers. We have been able to get only one of the ministries to give us an actual list, which it did. It showed more losers than winners, I might say. But I think one of the values of your presentation is the fact that you have outlined the areas where you really have some concern as far as your members and jobs are concerned. Their future is at stake.

We have yet to have any such definitive list from the other side of this particular argument. Oh, we have had lots of the leap of faith. We got that and lots of generalizations from Mr. Macdonald and others, but nobody has been willing to give us any kind of a winner or loser list. Whether it has any real validity or not, I think it is important to Canadians that this be part of the debate. For that I congratulate you.

I have just one other comment and then one question. In terms of the presentation you have given us, which is obviously from the heart as well, are you convinced that this also reflects the concerns of your members in the individual units and at the rank-and-file and steward and local union officer level?

Mr. Rannachan: I am completely convinced that these are the concerns. We have done tremendous research among our local unions and we have had tremendous discussion with local union officials regarding this. We requested an input from them and we got an input, and these are the feelings. I may add these are also the feelings of some employers as well as our members. I said clearly in my submission that the results of this submission were from information from employers and employers' organizations plus our own members.

Mr. Mackenzie: I might say that you touch points that have been verified before in terms of the loss of safety measures in the trucking industry. That has not yet happened, although we have, in effect, deregulation bills before us here in Ontario. Part of the testimony before this committee a year ago, by major figures in the trucking industry was that safety and health measures were lost by medium-sized firms in the United States during the course of their deregulation as they desperately tried to compete with the big outfits that were taking over the smaller outfits. So we have already had some clear evidence that is one of the patterns.

I think also, with regard to the brewery industry, you may be very right with the exemption. To a large extent, it is because you could quantify so clearly the potential loss of jobs. I know there is an effort by labour organizations, through the Ontario Federation of Labour and the Canadian Labour Congress, to get this story across, but I am hoping there may be some individual locals that know they are at risk that will contact us as well. I say that because of a call I just had shortly before this meeting today.

It is another local union. It is not one of yours. It is the Graphic Communications International Union, which has been on strike for the last week at the Lily Cups plants here in Toronto--550 employees. They tell me they were recently bought by an American outfit. They had been owned by another American outfit earlier. What is on the table in their effort to get an agreement with the new outfit is elimination of double-time premiums, elimination of shift premiums, substantial cutbacks in their workforce. Part of the argument being used is that they have to put themselves in a position to be competitive in this free trade scenario they are entering into. This is a strike that started a week ago and is going on right now here in Toronto for 550 employees. What they are getting is that we have to slash all of these benefits, double time, concessions won over a good many years, to put us in some kind of a competitive position.

I had an appeal by the staffer and one of the officers of that local to somehow or other get us on the record on this issue as soon as we can, because "There is no question in our mind"--that is the way he put it, and he was

speaking for the members on the picket line--"this is what is happening to us and this is why." I guess that is why I make an appeal.

I think your brief is excellent. I think if the committee opens its mind at all to it, it may help us a little bit. I would ask you to direct it at my Liberal colleagues, very frankly, because even this morning we had one of them saying he would not tear up the agreement or would have difficulty tearing up the agreement. I think the time is still there and that this agreement should not continue. I would ask you if the trade union movement's position would be one that this deal should be ended before it is implemented.

Mr. Rannachan: Quite definitely. If there is any thought of implementing it, I want the nation to decide. I do not want a few individuals who never had the mandate.

Mr. Mackenzie: Who never raised it during the last campaign either.

Mr. Rannachan: That is absolutely correct. Who even spoke against it in the last campaign. We are dealing with individuals who had no mandate whatsoever to bring free trade into being.

I would prefer, if we are going to continue this discussion of free trade in our country and in Ontario, that it be a national debate, that the citizens of Canada decide what they want to do and answer the questions accordingly at the ballot box.

Mr. Chairman: In addition to what Mr. Mackenzie said, we have had at least one brief unsolicited from an employer. I noticed one that you have not organized, a food processing employer that substantiates a lot of what you are saying. Your locals, I presume, were involved in the Ontario Federation of Labour tour of the province. I think they have had two tours of the province.

Mr. Rannachan: Yes, they were involved.

Mr. Chairman: Mr. Mackenzie has suggested that you address some of your comments to the Liberals. I have two Liberals who have questions for you.

Mr. Kozyra: I was very interested in the detailed presentation. Some of your critics direct their criticism this way, that you are prone, especially in the free trade argument, to present the worst-case scenario, the doom and gloom aspect. Would you comment on that as to whether that is being applied here or is this, in your best estimation, the fairest treatment of it? You did say there were some employers who had input.

Mr. Lumsden: We have had several employers who have given us input, and this includes the beer industry. While they are willing to say that as employers they will survive and fight as Canadians, which is what we commonly hear, and that as a business they will survive, they admit that it will be at the cost of employees, wages and a reduction in the number of operations perhaps that they even run.

The beer industry as an industry is going to survive. I have absolutely no doubt about that whatsoever, but they may be in the United States. Labatt's is buying plants there now. Right at the moment in negotiations, Canada Packers wants a five-year agreement with us, the first year a freeze, the second year we lower our wages to get closer to the American competitors, and for the next three years we lower our wages and our benefits even more so that

at the end of that five years we are even. It is a complete reversal. While the employers that we talk to say they will survive, as I said, it is going to be on our backs.

Doom and gloom? I do not think the presentation goes far enough. We tried as best we could, in consultation with the employers, to give you facts. The Canadian Labour Congress and the Ontario Federation of Labour are constantly asking for facts and they are really hard to get. To say there are going to be 15 jobs lost in this plant and 20 lost in that one is almost impossible for the employer, let alone us. They only know they are going to have to reduce.

As I said, this could have been a lot worse than it really is. Knowing that we would have to answer for it, we tried to keep it factual, based on what people supposedly in the know told us.

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Mr. Kozyra: I would like you to expand on a statement on page 20, the last sentence. You are calling for the tearing up of the agreement. "Even if the process were to stop immediately, and no deal reached, many Canadians will suffer and Canada, as we know it, will change." Can you expand on what you mean by that?

Mr. Rannachan: I can deal with that probably in a few points.

1. We already know the government suddenly dismantled Canada's national energy program.
2. They dismantled the Foreign Investment Review Agency.
3. There is pressure from the United States drug companies to force legislation on the federal drug patent bill.
4. The United States imposed a 70 per cent tariff against Canadian potash, drastically affecting our western provinces.
5. The United States imposed a 75 per cent tariff on shakes and shingles and included a 15 per cent tariff on softwood lumber.

These were all related. Obviously, it has an effect. Even if you decided today, no more free trade, these would have an effect.

Mr. Lumsden: We have workers out of work already. Some employers are gearing up for it in advance and have already put some of our members out of work.

Mr. Kozyra: You are linking it to the impending--

Mr. Lumsden: We specified Frederick Transport here. That is one. That owner clearly admits that is why he is doing it. We have already had members lose their jobs by an employer getting ready for it. We are not dreaming about it and that is only the beginning. That is in preparation. What happens when it gets here?

Mr. Chairman: Mr. Neumann just talked about Trailmobile too. I did not understand one of your answers to Mr. Kozyra. Are you suggesting that the beer industry is now going to lose some employment?

Mr. Lumsden: We were told initially, when this thing first started, that beer was going to be affected no matter what. The negotiators themselves, both the Canadian negotiator and the American negotiator, told that to the companies. They, in turn, have told that to us. So, if you will, I got it that way.

A spokesperson for those companies--Labatt's, Molson and Carling O'Keefe--told us that, from the negotiators' own mouths, so to speak, beer was going to be affected. When they withdrew it, there was reason to be suspicious, of course, and then along came the GATT thing. I think that is what we are trying to say to you, that we believe beer will be affected no matter what. I think we have told them that they have to be competitive. They have probably wanted an opening up of the borders all along, as business people. To have all of these breweries in every province across Canada, from a business standpoint, I suppose, could not be termed to be extremely intelligent, but it was what was required in Canada.

I think that if they could force us to open up the borders, allow them even to reduce all of those breweries down to one or two in Canada, that will happen. I believe that there is a move to go to the United States anyway. Labatt's is buying up plants over there now.

Mr. Chairman: Your argument is based on what you feel was a premonition that the GATT decision was going to solve the American's desire to become involved in our market.

Mr. Lumsden: It is dreaming on our behalf, but here we are in negotiations. To get this deal, beer had to be on the table, we were told initially. Suddenly it got withdrawn. They withdrew it knowing that they were going to get what they wanted anyway.

Mr. Chairman: We were told everything had to be on the table initially, though.

Mr. Lumsden: OK, but beer is not going to be there. Right?

Mr. Chairman: You should be aware that we asked the brewing industry to appear before the committee, and the industry as a whole indicated it was satisfied with the agreement, having been excluded from it, and therefore did not wish to appear. We may be missing something, and I would like to know if we are.

Mr. Rannachan: I can see the brewing industry itself being satisfied. With the modern technology in the brewing industry, you could actually put one brewery to supply all of Canada. At the present moment, via provincial arrangements, a brewery has to have a presence in that province to produce.

Mr. Lumsden: They are gearing up for it.

Mr. Rannachan: And they are gearing up for it. It will mean thousands of our workers will be displaced and we know this.

Mr. Chairman: Because of the GATT decision.

Mr. Lumsden: Yes. They are in negotiations currently. The first proposal from the employer is that nobody else be allowed into their guaranteed wage plans, etc. There is a freeze on hiring. That is what we are

saying. No matter what happens, we are affected already. Every employer is gearing up for it, and they are doing it by cutting back.

Mr. Chairman: Of course, if others do not have jobs, they will not be able to buy beer. That is another problem.

Mr. Beer: It is appropriate that I get to ask the next question, but it will not be about beer.

I think that one of the interesting things in the last few weeks, and picking up on what Mr. Mackenzie said, is that I too have had an example of a problem in my area where a company have been arguing that because of the impending free trade agreement--this is a US subsidiary--they are going to review what they are doing in Canada and in Ontario because of some labour "problems" that they see. I think it is disquieting, when one does not know quite what is going to happen, to hear that that is an element in discussions, because it is obviously serving as a kind of threat.

I would just like to focus on your comments on the social programs. This has come up a couple of times, but I suppose many of the people and organizations that have testified before us have been looking at what they see as strictly economic factors in terms of greater GNP or jobs or what have you. This clearly would be a major concern to you and, I think, to all Canadians in terms of whether this is a way through the back door, if you like, to affect our various social programs.

I was wondering. In the concerns you express here, have you had any of your lawyers do some work on this? Are you referring back to some specific examples? Obviously, there are elements within the agreement itself which raise this question, but I wonder if you have done any specific work or know of any work that has looked at the social programs and how they might be affected under the free trade agreement.

Mr. Rannachan: No. The only reason we feel that social programs will be tackled in Canada is that the lobbyists in the US are already saying to congressmen that our social programs must be considered a subsidy. It has already been decided within the free trade pact that a committee will decide over a seven-year period whether indeed they are subsidies or not. That is a tremendous fear I have that when they realize that they are paying a lot more down there than we are paying up here for our social programs, they will finally decide that this is a subsidy. That is our tremendous fear.

Mr. Beer: I suppose similar to the fishing industry on the east coast several years ago when the Americans claimed that the seasonal UIC payments were a form of subsidy.

Mr. Rannachan: That is correct. For your information, by the way, sir, at the present moment the fishermen are in a battle with the UIC because they felt they would make a little change which is disturbing them very much. I do not have the full facts on it; I was informed just two days ago regarding that. I am awaiting the full facts of it, but it looks as if there will be a representative appeal to a board of referees regarding it. I think this is just the start of it.

Mr. Beer: Concerning the other point on the child care, while it may not be specifically mentioned under these services and programs, your concern is that through investment through US firms then being able to come into the

various child care industries, in effect, this would then come under the purview of the agreement and would affect our various child care policies in terms of subsidies and so on.

Mr. Rannachan: Yes, just as they are attacking your regional policies right now. Right across Canada they are attacking your provincial regional policies of marketing, and I say they will do the same thing with child care. Let us face it, gentlemen. I have a few grey hairs in my head; I have been around a long time. This free trade is a multinational dream. I have seen them try it before in Ontario.

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Maybe some of you do not remember 1959 when we had the finest aircraft industry in the world and built the finest aircraft in the world. We designed it, developed it and built it. Overnight, because of multinational pressure on our federal government, 34,000 skilled men were put out of work. There was a small depression in Ontario. I recall it very well. In my own district alone, there were five suicides in three months. People lost their homes. I never want to see that happen again. What did we get for it all? We got a Bomarc we could not use. That was multinational trade. It was not called free trade then. We got a Bomarc that we could not use and which the Americans controlled anyway. They did not expect us to use it.

Mr. Chairman: One minute, Mr. Ferraro.

Mr. Ferraro: I have never asked a question in one minute, Mr. Chairman. Maybe I should not ask it at all.

Thank you for the clarity of your presentation. I feel compelled to add to what my colleague said about me, and yes, I did say that I would not tear up the free trade deal. But Mr. Mackenzie has selective hearing. I say this in the context that for me personally, I would not tear it up until I had another process in place to accommodate the protectionist attitude. It is tantamount to quitting a job without having another job to go to. I am not prepared to do that. Maybe Mr. Mackenzie, Mr. Turner or Mr. Broadbent is.

Having said that, knowing full well that you speak very clearly for the people you represent and that the labour movement in Canada per se is just about entirely united in opposing this deal, can you answer for me something I am not too familiar with. What is the position of American unions on this deal?

Mr. Rannachan: The position of the American unions?

Mr. Ferraro: They have been noticeably silent.

Mr. Rannachan: I do know right now that they are against free trade.

Mr. Ferraro: Are they against this deal in particular?

Mr. Rannachan: They are against this deal.

Mr. Ferraro: They are not saying much about it. Why is that?

Mr. Rannachan: I will ask my colleague to elaborate on it.

Mr. Ferraro: I hope you can.

Mr. Lumsden: I do not know why any of the Americans are not saying an awful lot about it. We can only speak for our international union and it is taking a position opposed to free trade on our behalf.

Mr. Ferraro: I want to put you in a difficult position because you are affiliated with them but they are not saying a damned thing.

Mr. Lumsden: Hopefully, it will start. Maybe they are just a little slow starting. They are opposed. The AFL-CIO is on record as being opposed, but there is no big promotion going on about it; that is all.

Mr. Ferraro: Are you raising Cain about that or putting pressure on it?

Mr. Lumsden: This submission is being presented.

Mr. Mackenzie: The United States did not ask for it, Mr. Ferraro, as you know. We did.

Mr. Ferraro: I know. That has nothing to do with the argument. They are affiliated with the American union and they should have some interaction.

Interjections.

Mr. Lumsden: This submission is being made to the international to answer that question.

Mr. Rannachan: Being honest with you, I do not recall any invitations being sent out to the AFL-CIO to appear here. If there had been, I am sure they would have come.

Mr. Ferraro: I was asking you because of your closeness to them.

Mr. Chairman: They are opposing it on your behalf as opposed to on behalf of the workers of the United States.

Mr. Lumsden: If I were them, knowing that they were going to get all these jobs from Canada, I would not come out running and screaming either.

Mr. Chairman: They are in an awkward position.

Mr. Lumsden: Their members who are unemployed could probably use our jobs.

Mr. Mackenzie: It is not on our behalf. The Steelworkers union internationally has also opposed this, as has the AFL-CIO. Their organization has opposed the free trade agreement.

Mr. Chairman: On behalf of American workers as well, you are saying. Could I have one thing clarified on page 12 of your brief? I am a little confused. You talk about the General Agreement on Tariffs and Trade ruling on fishing. You indicated it was a preliminary ruling. Is that the stage it is at now or there is a final--

Mr. Rannachan: It is my understanding, sir, it is still a preliminary ruling. The difficulty our federal bureaucrats are having right now is, is it just for British Columbia or is it for all of the Maritimes? I suspect it is for all of Canada, to be truthful.

Mr. Chairman: I suspect the GATT ruling would challenge--

Mr. Rannachan: I cannot see a GATT ruling just for one province.

Mr. Chairman: No, it would not be, but then you suggest that Canada will be locked into this ruling with the free trade agreement.

Mr. Rannachan: Yes. Canada is locked into the GATT ruling; in other words, you have lost your right to appeal to GATT.

Mr. Chairman: That does not seem right to me.

Mr. Rannachan: You are perfectly correct, sir; it is not right.

Mr. Chairman: I am not talking about right; I am talking about legally correct. I know with the wine GATT ruling, that seems to be operating parallel to the free trade agreement and independent of it. I would have thought the fishing GATT ruling would be the same.

Mr. Rannachan: No, sir, it is not.

Mr. Chairman: And that is because of something in the free trade text?

Mr. Rannachan: Right.

Mr. Chairman: Thank you very much. It has been very helpful to us. We appreciate your submission and we are going to consider it very carefully.

Next we have the Ontario English Catholic Teachers' Association represented by Jim Cooney, the president. Mr. Cooney, perhaps you will get yourself comfortable there. Your brief has been distributed to members of the committee. Perhaps you can lead us through it and then entertain some questions from us. We have an hour. Perhaps you can introduce the gentleman with you.

ONTARIO ENGLISH CATHOLIC TEACHERS' ASSOCIATION

Mr. Cooney: The gentleman to my left is Peter Murphy. He is an executive assistant with the Ontario English Catholic Teachers' Association.

Mr. Chairman: Peter Murphy; that is an interesting name.

Mr. Cooney: The Ontario English Catholic Teachers' Association represents 25,000 elementary and secondary teachers employed by Roman Catholic separate school boards in Ontario. As president of the OECTA, I welcome the opportunity to make this presentation to you. The reaction and position of the OECTA against free trade has been a position we have taken for about three months now.

I want to thank you also for recognizing that the educational sector should be heard from with regard to free trade. As you know, education is not mentioned in the text of the agreement itself as being a sector affected by it, but I believe it will indeed be affected, as I hope to be able to demonstrate to you shortly.

I thank you for giving us the opportunity to appear early in your proceedings. I would respectfully submit that the Ministry of Education might be consulted by this committee as well. They are certainly well qualified to speak on the effect of free trade on education and I therefore urge you before too long to extend an invitation to officials from the Ministry of Education to appear before you.

I would like to begin by saying the OECTA recognizes that international trade has played an important role in Canada's economic growth and development since before Confederation. Canada's success as a trading nation has substantial spillover benefits for the growth and development of publicly supported school systems. It follows that the interests and welfare of the school systems, the teachers who teach in them and the children who learn in them are linked to the success and failure of Canada's international trading relationships. That is why we are concerned about this free trade deal.

The major arguments for the proposed comprehensive free trade agreement between Canada and the United States are essentially economic. I know you have heard them all and probably you will hear them again. I will not repeat them here, but I would like to emphasize that OECTA shares the concerns about the economic case for the proposed free trade deal.

There is a very strong possibility that the economic advantages have been overestimated and played up and that the adjustment problems have been underestimated and played down. Both home-grown and US branch plants will be free to locate where costs are least and where they will be closer to the vast US markets. These firms may simply relocate to the US and export back to Canada duty free. There appears to be no safeguard against this country falling victim to the effects of the Mexican Maquiladora industrial project and being flooded by cheaply manufactured US goods.

Despite growing economic co-operation with the United States, Canada has always pursued a separate destiny in a variety of ways. Canadians have tolerated more government intervention and heavier tax burdens to achieve various economic, social and cultural ends which make us different from our neighbours to the south.

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Canadians have always believed in regional development, which OECTA believes is the development of peoples and communities and is a key to humanity. Canadians see the role of the state as one of offering help to the weaker and redistributing power to the regions, a point to which I will return later. A free trade deal would not in itself, of course, impair Canada's formal political sovereignty or our democratic institutions or our attempts to end regional disparity. However, some policies would certainly be more constrained. Both Havi Echenberg of the National Anti-Poverty Organization and Bishop Remi De Roo of Victoria, BC, have warned us that our social programs may be ultimately weakened if Canadian firms demand or the US government demands that taxes be lowered and brought into line with US standards.

In education, the greatest long-term threat would come from that pressure to keep the costs of government in Canada competitive in a continental marketplace. This downward pressure would detrimentally affect the operation of Canadian publicly funded school systems with drastic effects on Canadian culture and Canadian identity.

I would predict that the pressure on education is only one aspect of a general downgrading of social services, with the greatest pressure likely to fall on social services such as unemployment insurance, social welfare and health care, which are supposed to be exempt in the deal but on closer reading I found are indeed included. There would be pressure, too, on affirmative action legislation, on environmental protection, on health and safety legislation, on labour laws and on pay equity laws.

Specifically with regard to education, not only does Canada devote a higher proportion of national resources to education than the United States--5.3 per cent of personal income in Canada to elementary and secondary education in 1984 compared to 3.7 per cent in the United States--but these resources are also more equitably distributed according to the educational needs of Canadian children, regardless of where they live in Canada or of other circumstances that separate them. This result is achieved among the provinces by means of superior federal-provincial revenue sharing, equalization payments in particular.

Not only is the average spending per pupil higher in Canada than in the US--US\$3,420 was the figure for Canada over the three years from 1983 to 1986; that compares to US\$3,200 in the United States--but it is also much more equally distributed in Canada. For example, in 1986, the province with the lowest spending per pupil spent 61 per cent of the highest spending province. If you compare that with the United States, the corresponding figure was only 42 per cent. The lowest state spent 42 per cent of the highest state.

Unequal funding among the American states compared to the Canadian provinces is also reflected in unequal teaching and learning conditions in the schools. While the average number of pupils per teacher is similar in the two countries, 17.5 in Canada in 1986 compared to 17.8 in the United States, interstate variations are over four times greater than interprovincial variations. The state with the highest pupil-teacher ratio is 79 per cent higher than that of the state with the lowest pupil-teacher ratio, whereas the province with the highest pupil-teacher ratio is only 18 per cent higher than the province with the lowest pupil-teacher ratio.

As well, we have evidence of considerably greater inequality of funding education within the American states than within Canadian provinces. This is due largely to the greater reliance in the United States on local property taxes and the dependence on local property taxes for the funding of education. For example, in 1984, provincial governments in Canada provided 69 per cent of the funds for elementary and secondary education. I would have to say as an aside that Ontario is certainly not a leader in that respect. In the United States, by contrast, the state governments provided only 48 per cent of funds, with local taxation providing 52 per cent.

In short, I believe Canada does a much better job than the United States does of distributing its financial and human resources for education in accordance with educational need. It also does a better job of distributing the financial burdens according to the financial capacity of the nation and of the provinces, rather than relying on local taxation. In education, we certainly would not want to level down to American standards.

OECTA believes that the free trade deal will create greater pressures on our fledgling bilingual character and on Canada's beleaguered cultural industries than the pressures that already exist. Book publishing and public broadcasting agencies are already under serious pressure due to the inundation

of American-made material and some cutbacks in government funding. I wonder, too, whether under this free trade deal we could today found a CBC or a TVOntario. For education, teachers and children, a serious implication of free trade then is the reduced availability of distinctively Canadian learning materials and the possible erosion of bilingualism in school systems.

For teachers as public sector employees, OECTA's major concern is that the proposed pact would tend to increase the pressure for harmonization of labour laws between Canada and the United States to the detriment of all Canadian public employees and teachers in particular. Labour law, as you know, in the United States is much less sympathetic. The United States treats labour law much less sympathetically than do Canadian provinces. For example, while Ontario and all other provinces have collective bargaining legislation for teachers, only 33 states have similar statutes. OECTA would strongly oppose the kind of deunionization movement which has reduced union representation in the United States to 17 per cent of the labour force compared to Canada's 39 per cent.

The impact of free trade on education is likely to be long-term, but the impact on children is likely to be more direct during the transition or phase-in period. OECTA's concern is for the children of those people who are likely to be harmed and possibly dislocated as a result of free trade. OECTA sees the real possibility of major disruption and permanent dislocations of the educational process, of security of the home and of access to the other necessities of life for large numbers of children during the transition period. We see the apparent indeterminacy of the full impact of free trade by industry, occupation and region as one of the major reasons, despite being Catholic teachers, for not taking the leap of faith required to enter into this free trade pact.

In conclusion, I want to emphasize again that OECTA believes this deal is a bad deal for Canada. It is a bad deal for teachers. It is a bad deal for education. It is a bad deal for students. It attacks everything we do and how we do it. This deal does not mention education as being specifically included, but it will be profoundly affected in funding, content, labour laws and the negative effects of dislocation of children.

From education, too, will be expected the fundamental "national treatment" obligation outlined in chapter 5 of the agreement as social programs are levelled down. For these reasons, OECTA suggests strongly, once again, that you invite ministry officials to appear before your committee before you conclude your deliberations.

OECTA believes that the Prime Minister has a fundamental national obligation to level with us and to consult with us in a clear-cut way through either a national plebiscite or an election. We would urge you to use all your persuasive powers to try to convince the federal government to take a leap of trust in the Canadian people, who, I believe, will do the right thing for Canada.

1520

Mr. Chairman: Thank you very much. It is a powerful presentation and unique among the briefs we have had before this committee.

Mr. Kozyra: Mr. Cooney, some of your direction is very similar to what we have heard from a representative from the Ontario Ministry of Labour and also, very recently, the previous speaker from the labour unions, and that

is aimed at the concern of what was explained in the Ministry of Labour presentation of a ratchetting down especially of the benefits presently enjoyed by workers--because of pressures, whether it is in the industrial sector or, in this case, as you indicated, in education.

I am just wondering whether there is an evidence or studies of the US correlation that you could point to, because a lot of it is a kind of forecasting what might happen--the fear that it might. Is there a correlation in the United States? You said only 33 states have collective bargaining legislation. Is there a correlation between those that have it with the educational levels and success rates of students as a result of that? Is there a correlation as well between lower salary levels and benefit levels of the teachers between those that have the collective bargaining units and those that do not?

Mr. Cooney: Yes. I believe there is such a correlation. I cannot point to any studies that would support that, but certainly with regard to salary levels, there is no doubt they are lower in states that do not benefit from collective bargaining.

I would also point out that there are, I believe, eight of the states in the United States that actively and explicitly forbid collective bargaining on the part of teachers.

Mr. Kozyra: I would think studies and figures would show a strong correlation--especially if the resulting educational levels of the students, the product, so to speak--would be very supportive of your case and damaging to the case of a possible ratchetting down of services and product. Thank you.

Mr. Morin-Strom: I thank the Ontario Catholic Teachers' Association for making its presentation to the committee. It is quite useful that we get presentations from organizations such as yours. In the past, we have dealt primarily--I am talking in terms of this committee in the last Legislature--with either companies, industry associations or trade unions involved within industry in the private sector.

The arguments you have made certainly are very persuasive ones outside of the economic sphere in getting into the direct implications that this agreement could have on the social services, certainly educational services, in our whole country.

Can I take it from your stand that your position is that this agreement should never come into effect and that the top priority should be on stopping the agreement from coming into effect or tearing up the agreement if necessary after it has been implemented if we do not get the opportunity for an election before the end of this year?

Mr. Cooney: I contend that the Canadian people, if they are consulted, would give the opinion that this agreement is not in the best interests of Canada. I am convinced that Mr. Mulroney will live up to the promise he made in Brandon, Manitoba a couple of years ago that he would consult with the Canadian people before implementing free trade.

It is interesting, in reading the agreement, to note several references to continuing negotiations. I do not think this is an agreement at all. This is the first step in the five-, seven-, nine-, or 10-year process of negotiations. There are so many references in this agreement to things like

further consultations, a panel to advise us on this, a panel to advise us on that. Specifically with regard to culture, there are references that it was not possible to come to a final agreement about copyright, about patent law and about other things.

So I am not comfortable with what could happen. I am not comfortable with the fact that the chapter on services tells us that if there is mutual agreement, further services will be added. I am not happy that child care, I think, is covered in this agreement, even though it specifically says it is not. I am not happy that it says health care is excluded, but when you look further, you can see that the management of hospitals and homes for the mentally retarded will be covered in the agreement.

There are lots of things I am not happy about in this agreement, so I wish they would spend a few more years in tying up those loose ends. I know that if a group of teachers were faced with a collective agreement that had this many further loose ends to be tied up, they would tell us, "Go back, negotiate and get the deal finalized before you come back to us again."

Mr. Morin-Strom: Do you feel that the agenda we are talking about here really is an economic agenda or is it not one that is far more pervasive, covering all walks of life? In particular, it reflects a political-philosophical agenda between those who believe that we have a right to have a government that can do things for people that are beneficial and can intervene in the economy versus the capitalist, more American view of the rule of the marketplace.

Mr. Cooney: I would agree. I think that is obvious, for example, in the chapter on government procurements where governments appear to have given up a lot of their power. It is obvious in the chapter on standards, where you will have a move to compatible standards being effected between Canada and the United States. To me, that means that the weaker partner will be the partner that will lose. So I would agree with you.

Mr. Morin-Strom: If the business community and the proponents of this agreement apply sufficient pressure on the Conservative government not to allow a mandate this year so that they do not put the implementation of this agreement at risk--

You seem to disagree that this is a possibility, but I think it is a very real possibility that we will not get an election this year. Then the implementation starts. What do you think will have to be done in 1989?

Mr. Cooney: I think there will be a very powerful movement arising across the country in opposition to the deal in the coming months. The Ontario Teachers' Federation is opposed to the deal. The Canadian Teachers' Federation, with 220,000 members across the country, is opposed to the deal. As part of the pro-Canada network, that organization and my organization and the Ontario Teachers' Federation will be actively involved in the coming months to try to show the Canadian people: "Guys, it ain't over yet."

We still can turn this around. We still can ensure that the agreement is renegotiated, if indeed there is to be a free trade deal. We are not philosophically opposed to a free trade deal, but just to this one and to the provisions in this one.

So we think the message can be sent to the government and we are going to be speaking out strongly to try to convince our members to take the message to their communities, to try to convince other public sector employee unions and other people across the country that this deal is not finalized yet.

Mr. Morin-Strom: One final point. You say you are not philosophically opposed to a free trade deal. By that do you mean you are not philosophically opposed to the principle of elimination of tariffs and economic barriers as opposed to a much deeper agreement that gets into so much more than just strictly economic barriers?

1530

Mr. Cooney: That is correct. I think if a deal is negotiated carefully, if there is genuine consultation of the population and if there is a genuine political will to engage in such a deal, knowing full well the ramifications, we would have no philosophical objection to that and no objection to it in principle.

Mr. Haggerty: The question I have in mind here is that you are saying one way to resolve the problem of free trade with the United States is to go to the polls or hold a plebiscite or make it an election issue. Is there any other alternative method by which we can improve or enhance free trade with the United States without giving away our birthright, our heritage, our energy resources and all the way down the list? Is there any other alternative?

Mr. Cooney: You are more adept at the political scene than I am. I remember very vividly the political campaign that was waged by seniors with regard to some of their rights that were being taken away some years ago. I believe the federal government is politically sensitive and astute, and if the message is delivered strongly right across the country, if every sector of the Canadian population makes its voice known, I do not think you even need an election. I believe the government that is elected in Ottawa will be responsive to the wishes of the Canadian people. They often make changes in direction without being hit over the head.

Mr. Haggerty: Maybe the only way to get their attention is to hit them over the head.

As it is now, we talk about free trade and there is the present omnibus trade bill and protectionism at its worst in the United States that is being passed through the upper and lower chambers of the government of the day. Yet we say we do not want any part of this free trade. We are not satisfied with it. How do we negotiate an agreement with the Americans when they have that bill saying, "It is either our way or no way at all"? That is just about what that bill tells us. It is a club, saying to you, "Come our way."

The President of the United States has indicated, "We have Canada on our side now. We are going to Mexico next, and we are going to all the other countries and use them as an example. In fact, they are saying, "Look, we have a free trade deal with Israel," but you and I know the deal there is like the difference between apples and oranges. One is that you are going to import oranges to the United States and you are exporting military armaments to Israel. If you look at the deal, it has gone that way, or it is about tourists, but it is really not a fair trade deal with the United States compared to what there is for Canada.

How do we say, "We are not going to bargain with you, we are not going to take that approach at all"? How do we open the doors for continued free trade with the United States, because it is indicated? I suppose there is about 80 per cent or 75 per cent now that is working in favour of Canada, and there are no tariffs on 65 per cent of the goods coming into Canada. How do we improve that, with that omnibus bill there? How do we get around this?

Mr. Cooney: I do not know the answer to your question. I think the accumulated wisdom present in this committee is surely better qualified to answer that question than I am. All I know is that for probably the past 100 years, we have been on the roller coaster of protectionism and not protectionism in the United States. It is just one further battle to be fought politically for the United States. I think we have to be able to convince the powers that be in the United States that it is in their best interests not to impose further countervail on Canadian trade.

Mr. Haggerty: The witnesses who have appeared before the committee have indicated that where there has been a disagreement in certain commodities, we have been able to work it out. But under this bill here, to get what the federal government calls free trade, we have to sacrifice almost everything in Canada. That is one of the difficulties I have. How do we get around that trade bill in the United States? That is the question. How do we get around it?

Mr. Cooney: I would be looking for the final report of this committee to answer that question.

Mr. Sterling: I think Mr. Haggerty asked the pertinent question. It is all right to bury your head in the sand and not make a deal, but what do you do in the face of rising protectionism in the United States?

I noticed, Mr. Cooney, that you drew a lot of conclusions when you said that you did not like this free trade agreement. Can you tell me in particular what parts of it you do not like?

Mr. Cooney: The services chapter.

Mr. Sterling: What do you mean in the services chapter?

Mr. Cooney: In the services chapter, it says that regulations that presently exist cannot be more discriminatory than those that are present at this time, but if any new regulations are made for covered services, then they will have to "conform fully to the national treatment obligation." I think you would have to agree, Mr. Sterling, that by and large Canadian standards for environmental protection, health and safety and many other issues are more stringent than those in the United States.

Mr. Sterling: It is not true.

Mr. Ferraro: It is so.

Mr. Sterling: Not true.

Mr. Cooney: I suppose it is a matter of opinion, Mr. Sterling.

Mr. Chairman: It is a matter of--

Mr. Sterling: Yes. It is true in certain areas, but it is not true in a lot of areas as well.

Mr. Chairman: Mr. Cooney is answering the question. Perhaps you can--

Mr. Sterling: No, no. You know, he has made a number of assumptions that I think have led him to a standard protectionist answer in terms of the free trade agreement. I think it is important that we address the problem that Mr. Haggerty brought forward in terms of what are we going to do. I mean what are we going to do in this whole issue?

Mr. Cooney: I do not believe that what we have to do is to bury our heads in the sand and not continue to engage in discussions with Pacific Rim countries and to engage the United States in dialogue to ensure that they will not implement the protectionist laws. I do not think you have to go away and cease speaking to and negotiating with the Americans, or that the answer is no deal and we die. I think it could be a better deal than is here. It could be no deal and a better deal on a multilateral level with many other countries.

Mr. Sterling: The evidence that at least I have heard from various groups who speak, I feel, rationally on the issue is that it is either going to have a modest positive effect or it is going to have a modest negative effect. That is what I am hearing from the comments or evidence with regard to deputy ministers, economists and people who do not have a particular axe to grind. Therefore, when we generalize in terms of your statements here without particular backup as to what you do not like or what you do like, it does not add, in my view, great credibility to the presentation.

Knowing a great number of teachers, my wife being a teacher as well, I know from talking it over with those teachers that, first of all, free trade is not high on their issue plate in terms of what we talk about at parties, etc. What have you done in terms of consultation with your 25,000 members?

Mr. Cooney: I am happy to tell you that we had a council of presidents' meeting shortly after we made the decision to come out in opposition to free trade. The council of presidents represents the locals of the union across the province. They were supportive of the decision that we made. Very soon we will have an opportunity in a representative way to consult with just over two per cent of our membership representing the total membership. I think we have a very democratic organization where our annual meeting is representative of two per cent of the total membership. The question will be put to them. I am confident they will support the position that we have taken.

1540

Mr. Sterling: They very well may do that because of the importance of the issue--at least, what I have gleaned from various informal conversations over the last three or four months with regard to the issue--and that is not very high.

Do you think this should be the election issue? You say that the pressure or the popularity in terms of the opposition to this is growing, yet the Gallup polls seem to indicate the exact opposite, that support is gaining for this free trade agreement as time goes on. That has been proved in terms of the most recent polls. Do you think that is going to turn around?

Mr. Cooney: I have not examined the latest poll results. I think there is a majority of Canadians opposed to the deal. We have a history in Canada--I believe in 1911 there was an election fought on this very issue--of important issues like this being crystallized at times of election. I do not know if there would be other issues in an election, but I know there will be issues like trust and other very intangible things on the table as well.

I do not quite know whether or not you can isolate it and at the end of the day say that the electoral decision has resulted from the electorate speaking yes or no on free trade, but I think our government will get a message during the course of an election campaign.

Mr. Sterling: I had understood that more people were in favour of this free trade agreement. I believe it is 48 per cent for, 32 per cent against and 17 per cent undecided, somewhat in that range. What figures are you referring to?

Mr. Cooney: I have not examined the most recent poll that you are referring to, Mr. Sterling.

Mr. Sterling: I think it would be an election issue regardless of whether or not it is decided before that time, and then the people will have a chance to mix that in with their vote. Whether that will be a definitive answer on whether they are in favour of or against free trade is going to be conjecture after the election, I am sure.

I find it somewhat odd that you draw a conclusion in direct opposition to what the words say with regard to some of the social services. I guess when you see words, I think you are expected to sort of believe them.

Mr. Cooney: I respect what you say, Mr. Sterling, but when you look, for example, at the article on culture, there are two sections in the article. In one section it says culture ain't covered. The next subsection says, "But notwithstanding that," and then it goes into a sentence that I cannot understand, but I think it says that culture could be covered. Child care, I think, is covered in there because it is simply included in the investment chapter. The issue of health is supposedly excluded, but the management of hospitals is included.

I have had it on good authority that there are some education sectors included as well. I have not had the opportunity to check it out, Mr. Sterling, because with the section on services in here, it has a gobbledegook list of classification numbers that I could not figure out, I could not get in the schedules and I did not have an opportunity to check someplace else. But somebody has informed me that some of those numbers refer to business schools, vocational schools and secretarial colleges, and I think that if that indeed is the case, it is another example of fudging of information.

Perhaps I am wrong; that is why I did not include it as part of my formal presentation. But I would disagree with you that I am taking some words from here and saying that they are not true on a hearsay. I think there is some evidence in there that there are contradictions in some clauses of the agreement.

Mr. Chairman: Perhaps we can try to clear that up too, because I think it would be helpful to members of the committee to get to the bottom of what some of those references in that section are.

Mr. Cooney: I would be very happy if you would inform me when you find out.

Mr. Chairman: All right, we will try to get back to you. Any other questions?

Mr. Kozyra: Just one, and perhaps it was answered while I was away. Much of the discussion centred on the delivery rather than the content itself of education, and I am wondering whether there is any fear whatsoever as to the Canadian or the Ontarian content aspect of the education itself that would be affected; or is there no danger of that?

Mr. Cooney: Only in so far as it will be a little easier to distribute materials in Canada that have been printed and typeset in the United States, but I would not want to be more machiavellian about it or to see further messages in there than that. I do not believe that the overt intention of the framers of the free trade agreement was to indoctrinate us.

Mr. Kozyra: I did not intend that. Is there any advantage in terms of less expensive instructional materials?

Mr. Cooney: I do not know. I cannot comment on that.

Mr. Morin-Strom: On the issue of whether there were some other educational services included, we just had in the previous presentation, from the United Food and Commercial Workers International Union, a listing of various services which are apparently included under a schedule in chapter 14. It included quite a list of hospital services, other institutional health and social services, noninstitutional health services, medical and other health laboratories. They also have a short list here of post-secondary nonuniversity education, including schools of art or performing arts, vocational schools, trade schools and business colleges, post-secondary nonuniversity and educational institutions.

I note that in the wording of chapter 14 on services, the schedule of services that are included includes a summary list of services. However, the actual wording says, "Services covered by this chapter shall be limited to those services corresponding to the standard industrial classification (SIC) numbers included in the schedule." They have quite a list of these numbers. I have asked the researcher if he would find out from the library what, in fact, is included in this.

There is quite an extensive list of numbers on page 204 of the schedule, which in fact gives reference to Statistics Canada's publication Standard Industrial Classification, fourth edition, 1980. Apparently, all of the subdivisions of these various categories of services or industries listed in the Statistics Canada classification system are included in the agreement. They are explicitly referred to by number, although not by name, in the document. It will be quite interesting to see what in fact is included in that.

Mr. Chairman: I think the record should show that the researcher is temporarily out of the room right now, so perhaps we can discuss that directly with him.

Mr. Morin-Strom: Yes, I have.

Mr. Chairman: Oh, great. Mr. Cooney, you had a comment on that.

Mr. Cooney: I just wanted to say that that was precisely the page that alerted me as well. I did some digging, but I could not come to a conclusion about them. I am grateful to the Canadian Teachers' Federation for their research department and for Dr. Wilf Brown, who provided me with the facts and figures that I quoted in my presentation today. Somebody else in a national organization in Ottawa assured me that the numbers on page 204 referred to schools of art and the performing arts, vocational schools and business colleges, but I hesitated to bring it forward until I had checked it out myself because, quite frankly, I was just amazed that it would say no educational sectors but that these would be buried here someplace. I just did not think that would be credible, but I would be interested to see what conclusion your researcher comes to in this matter.

Mr. Morin-Strom: That would be invaluable for us to know.

Mr. Chairman: No doubt about it; it will be.

This has been very helpful, very enlightening. Again, I repeat it is a unique presentation. We should and will delve into this area more thoroughly at this stage. Thank you very much, gentlemen.

Mr. Cooney: Thank you very much.

Mr. Chairman: The next person to appear will be James Conrad. He will be representing the Business Council for Fair Trade, which I think members will find very interesting. It is an organization of business people with a very different point of view from Mr. Macdonald's. They are not here yet. It is not four o'clock yet; that is the reason. So I will recess the meeting until four o'clock. At four o'clock Mr. Kozyra will be your chairman as Mr. McClelland and I get prepared to leave as your emissaries to the United States.

The committee recessed at 3:46 p.m.

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The Acting Chairman (Mr. Kozyra): We are ready to reconvene the committee hearings. We welcome Mr. Conrad from the Business Council for Fair Trade. Mr. Conrad, please introduce the gentlemen with you and then proceed. We will tentatively adjourn at five o'clock, if not sooner.

BUSINESS COUNCIL FOR FAIR TRADE

Mr. Conrad: Thank you, Mr. Chairman and gentlemen of the committee. I am pleased to be here on behalf of the Business Council for Fair Trade. I will introduce each of the business persons with me in turn and they will make a brief submission to you on various points.

First, I would like to spend a moment explaining to you the role of the Business Council for Fair Trade. We are business persons from across Canada in all sectors. Our outlook is to the world. You may have noted our logo with the stylized maple leaf and the world superimposed. We are outward-looking, mature and confident and believe in enhanced trade with all countries of the world.

We as businessmen have examined the Mulroney trade deal and have asked the questions that any business person would ask of any deal--what did we give and what did we get--and we have concluded that it is a bad business deal.

For us the status quo is not a viable alternative, so the business council, in addition to educating business persons across Canada on the drawbacks to the Mulroney trade deal, is interested in education of businessmen on business opportunities and in proposing positive, constructive alternatives to government so that Canadian business will be internationally competitive.

As my first witness, I would like to introduce the gentleman on my far left, Roel Buck, who is co-chairman of the Business Council for Fair Trade and president of Auto Systems Manufacturing Ltd. in Belleville, Ontario. I have asked him to speak to you on two points. One is his view of the effect on the auto pact and the second is the climate of uncertainty that has been created by this Mulroney trade deal.

Mr. Buck: Good afternoon, ladies and gentlemen. I am delighted to be here. My family has been in the automotive industry for two generations. My father started Dominion Automotive in Toronto and we had as many as 1,200 employees. I myself have started four plants in Canada: two in Windsor, one in Collingwood and a new plant in Belleville, called Auto Systems.

These plants came about primarily because of the auto trade agreement of 1964, and I would like to go back to that in order to bring us up to date on where we are in the automotive industry today and what the outlook is in the future.

The auto trade agreement that everyone points to as being a perfect example of free trade was not a free trade agreement. It was a disastrous agreement and was salvaged at the last moment by the president of Dana Corp., Gerry Mitchell, who went to see Mike Pearson and at the last moment they put in safeguards, the safeguards being 60 per cent Canadian value added and a sales-to-production ratio of one to one. They were put in at the very, very last moment and that has been the basis of the success of the auto trade agreement. Without those safeguards, it would have been a disaster.

As a result of that, plants were built in Canada, primarily in Ontario because of the natural proximity to Detroit. That is why they were not built in Saskatchewan, even though Mr. Devine thought they should be. OK? Water finds its level. The automotive industry found its level in Ontario because of steel, skills, whatever it took to make the things work.

1610

Now we have the proposed new free trade agreement, and what did they do? The first thing they did was get rid of the safeguards. Instead of the 60 per cent Canadian value added--excuse me, you can see that I am--

Mr. Dietsch: A little excited.

Mr. Buck: Not excited, but free and easy, and I am not accustomed to these proceedings.

Mr. Haggerty: At least you are hitting east and west.

Mr. Buck: True. At this time of year, I guess I should go south but I am here trying to make sense out of this free trade agreement.

Now they have done away with the safeguards in the proposed agreement. I still do not think this is going to be the final agreement. I am quite

convinced the Americans are going to make changes because Congress is going to have the final say. Nevertheless, they have done away with the safeguards and instead of 60 per cent Canadian value added, they have now come up with a tremendous, brilliant idea of 50 per cent North American content.

The rules of content have changed. Certain things are not allowed. Certain things are allowed. That all has to be settled. Things like insurance and advertising are not permitted where they were permitted under the Canadian value added scheme, but they have come up with a plateau, a level of 50 per cent North American content. Great, but what does 50 per cent North American content mean? It means that 50 per cent comes in from offshore. That is what it means. It will come in from Brazil, Mexico and the Pacific.

That condition did not exist before under the auto trade agreement. Now we have to be our brother's keeper; we have to help everybody in the world. We are Canadians with Boy Scout hats and we have to help everybody, but to what extent do we have to help everybody? Where are the jobs going to come from for our young people who are graduating from our schools? What are they going to be: car jockeys in Vancouver and drive the cars off the boats and put them on the trains? Are those the jobs we are going to have?

If they do build cars in North America, as you can see, the cars are going to be built in the United States. I told you about the plants I built in Canada. I also built a plant in Tennessee a few years ago for the simple reason that I was able to get eight per cent money when money was about 18 per cent here. The cost of financing in its infancy is the most important thing for a company starting up with a new product. Once it is mature and paid for, you are not borrowing money and it is not a concern. But when you start up with new products, the cost of financing is great.

Is the federal government prepared to take this one step further and have compatible tax laws with the United States? That is what you have to have if you are going to have trade on an equal basis or fair trade. The thing is that all they have done is address themselves to the glitz, the show, but they have not addressed themselves to the substance of how this thing is going to work in the long term. Sure, right now, it is great; Reagan and Mulroney get together, but what is going to happen for the next generation? What is going to happen for even the next five or 10 years? Are there going to be jobs in the country?

As I say, I have built a number of plants here in Canada. In the future, why should I build another plant in Canada when I can build it in the US and get revenue bonds and what not? I am a Canadian. I have fought with Simon Reisman. He was insulted when I called out my regimental number. He said, "I fought in the war too."

I was born in Canada, I have lived in Canada, I have travelled around the world, and I still come back to Canada and come back to Ontario. But are there going to be jobs, and are our kids going to stay here? I think that is a prime thing. There will not be. When Mr. Mulroney says he is going to create 120,000 new jobs with the proposed trade agreement--

Mr. Haggerty: That is over five years, though.

Mr. Buck: Say that he does. How many jobs are going to be lost? What is the net effect going to be? I am a business person. I have to weigh the pros and cons of all this. If I have to invest in the future, I am not going

to be building new plants in Belleville or Cobourg. I am going to be close to the market. This is what the Japanese are doing. Japanese car manufacturers are bringing over 300 Japanese parts suppliers to set up plants in the United States, not in Canada but in the United States. This is fundamentally what is wrong in the automotive sector.

Let me tell you, I am for free trade. Canadians can compete belly to belly with the Americans, but you cannot have restrictions and you cannot have inequalities. It is not the tariff barriers that you have to concern yourself with; it is the nontariff barriers.

This came over the CBC this morning: potato growers on Prince Edward Island are being exempted from shipping potatoes into the United States. Where is this whole free trade idea going? The United States is subsidizing grain to Russia, but we cannot have the Crow's Nest Pass rate. I see where Ontario Hydro was looking to finance a generating station in James Bay so we can say we own this station and therefore we can have hydro, and since it is ours, we do not have to share it with the Americans. It is all one-sided.

Jim Conrad referred to the nontariff barriers. I would like to refer to the fact that we have not been given all the facts. You cannot get the facts from Simon Reisman. The only way you can find out what is going on or what has gone on--you cannot get it out of Ottawa--is if you go to Washington. You find out there what it is all about.

Reisman promised he would try to get 60 per cent Canadian value added instead of 50 per cent. At the last minute, he caved in, even though the Americans were willing to go to 60 per cent. So what is this thing all about?

As Mr. Conrad said, it is a trade agreement. When you trade, you give something and you get something, it is fair and square and it is a win-win combination, but what have we ended up with? We have ended up with a lose-lose, and that is why I am against it.

The Acting Chairman: Mr. Conrad, let me just say that we are working within an hour time limit unless the members of the committee vote otherwise, and I am sure some want to ask questions. I know you have about five or six presentations.

Mr. Conrad: I appreciate that, and I only mention that within this umbrella organization called the Business Council for Fair Trade are many associations. Roel Buck is a director of the Automotive Parts Manufacturing Association. I would put in the mind of the committee that when you hear the Alliance and the BCNI and the CMA, you are hearing all the same people because they are all in the same group. Larry Thibeault, of the CMA, is a director of the BCNI, so you are really hearing those groups three, four and five times.

I would like to ask for your indulgence because we do have some other members who are most anxious to appear before you.

Mr. Mackenzie: I would suggest, and I think this is what is being recommended here, that we hear all the presentations as quickly as we can. Otherwise, if we start questioning after any one of them, we will never hear the rest of them.

The Acting Chairman: That is right. Please proceed.

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Mr. Conrad: Thank you, Mr. Chairman. The other co-chairman of the Business Council for Fair Trade is Bill Loewen of Comcheq Payroll in Winnipeg, which has some 250 employees and 11 branches across Canada, and one of the associations that endorsed the business council is the Canadian Independent Computer Services Association.

In an appearance at Winnipeg before the House of Commons external affairs committee, Mr. Loewen said: "We present our concern for the loss of 360,000 information processing jobs. We wish also to remind you that the present government estimated imports of technology products cost Canada 120,000 jobs." What I will do, Mr. Chairman, is bring that brief to you so that you will be able to review it in some detail.

Now I would like to move to Desmond Seymour, who is on my right, one of the advisory board members of the Business Council for Fair Trade. Mr. Seymour is the president of a number of companies or is involved in a number of companies.

Mr. Seymour, I am wondering if you would describe your business interests first and then the concerns you would like to put before this committee.

Mr. Seymour: Mr. Chairman, ladies and gentlemen, I own a couple of small companies, or I did. I just sold them out to my sons because I intend to retire shortly and move out to British Columbia where I was born. That is not to say anything against Ontario where I have enjoyed making a living for the past 37 years.

I guess what bothers me about this whole free trade deal that Mr. Mulroney and company have negotiated--and I do not think they really did a good job of negotiating on our behalf--is the fact that I strongly believe that we will lose jobs and we will lose our identity as Canadians.

Trade now moves north and south, but we have a great deal of east-west trade. With the free trade deal, trade will tend to move more north and south. It is only natural for British Columbia trade to move down into Washington or California. The Prairies will move down through Denver and Colorado into the Chicago area. Ontario, with losing its markets to the west and east, will be forced to have a trade pattern to the south.

Quebec has always said, although people pooch-pooch Mr. Parizeau when he says it, that this will bring about the dismemberment of Canada and Quebec will be able to secede, I firmly believe this is in the cards if we go ahead with this free trade deal. Again, the Atlantic provinces, with their natural closeness to the New England states, will trade there.

Once you have this, you have your whole culture moving back and forth in these lines. You will not have a Canadian culture; you will end up with segmented American cultures. Once you have this, you are going to have the disintegration of Canada, and I firmly believe this.

I also believe, as the gentleman on my left said, that we are going to lose a great number of jobs. If I am going to put in a new plant to service the North American market, I am certainly not going to put it in Canada. Our wages are higher here and our productivity is less because of our market. I would put it in the largest concentration of population there is and then

service this market from here, because certainly I am going to sell 90 per cent of my product in the US and only 10 per cent in Canada. That is the ratio of the populations.

So we are going to lose jobs. I cannot see where the arithmetic says or anybody can say that we are going to gain jobs out of this in the long run. We might gain some in the service sector, yes, low-paying jobs, but if they are going to take all the research and development and engineering out of Canada, where are our university graduates going to go? Into the United States, where our top students go right now.

I think this is just a bad deal, and we are going to see the tearing apart of Canada. We will no longer be a country. I have always said that if this is signed, we may as well ask for permission to join the United States right away because that is what it is going to be in the long run. We will be better off to do it tomorrow than the day the agreement is signed.

I feel very strongly about this. I am a Canadian born in BC, as I said. I went to school there and came back here to make a living. I believe in Canada. I just cannot see this whole thing of free trade. I have heard nothing yet, even from the Ontario government, the Liberal Party, which says it is opposed to free trade; they have not said anything about the effect of the value of the Canadian dollar in US terms. Here we are, we have the 75-cent US dollar right now--maybe it is closer to 80 cents at the current time--and that is what has given us the present favourable balance of trade with the US.

There is only a six per cent tariff going into the United States right now, and it has been as low as 70 cents and even slightly lower for a while. This is what has given us a favourable trade balance with the United States, certainly not the removal of the six per cent tariff on a few items. I do not know where all the people who support this are getting the idea that we are going to be able to sell more in the US because of free trade and the lowering of tariffs.

A further point is that if plants want to stay in Canada, they are going to have to adopt American practices. The owners of companies are going to say: "Hey, we cannot afford to pay hospitalization. We cannot afford to pay all these things." So our social services are going to go down the drain and we are going to become more like the Americans. We will have the elimination of the Ontario health insurance plan.

We are Canadians, we are not Americans, and thank God for it. I want to conclude, by saying I am really not opposed to free trade but, without safeguards, if we as a country go ahead with this, we are lost.

Mr. Conrad: Thank you, Mr. Seymour. Now I want to introduce Annabel Cathrall and Ron Pate of Pate Cathrall, who are in engineering services. They are both professional engineers. Ms. Cathrall, could you summarize the services that you provide and your concerns with the Mulroney trade deal?

Ms. Cathrall: Good afternoon, ladies and gentlemen. Pate Cathrall is a two-person company and we provide engineering services to the manufacturing industry. I came out of the energy industry. My partner came out of the automotive industry and the US aerospace industry. We are not slouches; we are good at what we do.

When the free trade deal was signed, I started trying to find out how our market felt about the free trade deal. I went around and asked a fair

number of people. Among the foreign-owned plants, I found a great deal of uncertainty as to whether there would still be justification for keeping branch plants running in Canada. Among Canadian-owned plants that are not in military production, I found a great number fearing for their own survival and I found some who were saying: "The dispute settlement mechanism is not going to help. The best thing I can do is to shut down here and move to New York state and supply Canada from there."

The outlook for our market looks dismal and, therefore, the outlook for us looks dismal. I do not believe that if this deal goes into effect, we can continue to make a living in engineering. We are continuing to pursue engineering as a company for the time being but we are also looking for a new line of business, because I think it is inevitable we will have to make the switch. I feel very bitter indeed about a government that would do that to us.

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Mr. Conrad: I would now like to ask Ken Blawatt, who is a manager of marketing for the Business Council for Fair Trade, to cover three topics. First is the job loss under the auto pact. Second is the concerns of the toy manufacturers. One of our directors, Tom Taylor of Preston Manufacturing in Cambridge, is down at the toy show at the Metropolitan Toronto Convention Centre. He would very much like to be here but is unable to because he is involved in business. Third is the concerns of Don Ziraldo, who is the owner and president of Inniskillin Wines in Niagara-on-the-Lake and is also on the advisory board of the Business Council for Fair Trade.

Mr. Blawatt: Thank you, Mr. Chairman, for the opportunity to meet with the esteemed members of the Ontario Legislature. There are three topics that I wanted to bring into the discussion, and I will do it very quickly so that we can conceivably get into some questions if there are any.

I will begin by indicating that the structure of the Canadian economy, within which, of course, fit the auto pact agreement and the auto industry itself, is still very much akin to the concept of Canadians being hewers of wood and drawers of water. In fact, what I will submit to the committee is a paper that I presented to the World Marketing Congress in 1983. It is a bit dated, but it provides the committee with a bit of an examination of the kind of industrial structure that we have that, in one fashion or another, indicates we are very debilitated within the system.

In 1981, we had a trade surplus between Canada and the United States and, for that matter, the rest of the free world of almost \$5 billion. When we take a look at that in financial terms, in monetary terms, it has a certain amount of comfort. We take a good deal of pride in the fact that we are able to produce or generate a certain flow of goods and services that can be sold abroad.

The difficulty, of course, comes about when you examine it in reality, and the reality is the amount of employment that the export of those products and the import of other products provides within the system. The study that I undertook at that time, based on the 1981 statistical figures, indicated that the reality was that Canada, in terms of total jobs, direct and indirect, from all sources was a net exporter of employment, that whether or not \$5 billion worth of trade surplus was a meaningful thing, the reality is that almost 250,000 jobs were given away to other countries within the system.

Very quickly, and I will table this with you, the raw materials, the

crude materials and some of the fabricated materials we export, such things as natural gas, coal, grains, feeds and items of that nature, provided us with a surplus in 1981 of about 120,000 direct jobs. But the importation of finished goods, of end products resulted in a net loss of well in excess of 200,000 jobs. So what we are doing, in effect, every time we buy a microwave oven or television set is providing employment elsewhere in the world.

The study is somewhat consistent. We ran a comparison of Japan and the United Kingdom, which is very interesting, including the United States of America. Even though at that time the United States was running a deficit with regard to its economy--I think it was a \$24 billion deficit in trade in 1980--it enjoyed a surplus in terms of employment, direct jobs, with a quarter of a million direct jobs, so the employment picture is consistent.

Within that framework we conducted an examination of the automotive industry. Pat Lavelle for a number of years was president of the Automotive Parts Manufacturers' Association of Canada and he consistently decried, lamented and moaned about his deficit in terms of parts, and with good cause. The fact of the matter is that the jobs are in parts and not in automotive assembly.

In 1981, although there was, if you will, a Canadian surplus in terms of trade in the auto pact product itself of almost \$2 billion, the fact of the matter is that Canadians were in a deficit of almost 41,000 jobs. What we were doing, of course, was permitting the manufacture of parts components which, on a per million dollar basis, generates three to five jobs, depending on whose figures you argue, as compared to one job per million dollars worth of automobile assembly in the entire process.

This points to the critical dimension that Roel Buck was putting forward concerning CVA, the letters of understanding or letters of undertaking in the whole process, because without those and without the enforcement that there be a certain Canadian value added perhaps in the dimension of parts, the whole situation becomes enormously unbalanced. I will table that with you. It is a bit historical, but perhaps it will give you some indication of the structure in which we deal.

Mr. Conrad has asked me to express the concerns of Tom Taylor, who is president of Preston Manufacturing located in Cambridge. Mr. Taylor produces basketballs, of all things, which he sells very competitively and profitably, I presume, to the people at Canadian Tire Corp. and others within the system. In fact, he is so competitive that he sells one third of his production--he has 50 to 60 people working for him up there--to the United States.

His concern is that we are not going to be playing on a level playing field, that the particular structure we have apropos dealing with dumping, unfair trade practices and such will probably see his demise as a manufacturer in this province in this country. He indicates that it is entirely likely--at least in his experience he is persuaded to believe this--that Americans who have enormous production runs can simply have a small overrun of a few thousands or a few tens of thousands of basketballs. Instead of selling them to Canadian Tire and to the other large retailers in the system at perhaps a more conventional \$10 per unit or \$9.95, whatever the case may be, they will be simply be able to price them at the margin plus some markup and sell at \$8.

Mr. Taylor is not afraid, as is the case with Roel Buck, of competition--hardly at all--when it is fair, when it is equitable and when recourse exists that permits him to get back on to a more equitable basis. But

Mr. Taylor conducted his own investigation and came to the conclusion that it would take four to five years, given the current Canadian structure dealing with matters concerning dumping practices, before he would have his day in court, in contrast to the United States. If he tried the same thing in the state of Ohio, Pennsylvania or New York, he would be dragged before some authority within 90 days.

As a consequence, we have this kind of a stick that exists in terms of selling into the United States, but in Canada there literally is, in his view, a four- to five-year moratorium to cut the hell out of the market and buy the market in its entirety. The concern of the unfairness, if you will, or the inequitable nature of the laws or the dealings with respect to the tribunal that the federal government has posted--which, in the light of what Mr. Taylor believes, is somewhat fictional, if perhaps not somewhat inappropriate--was also expressed by individuals in the wine industry.

For the last three weeks, I have been visiting chief executive officers of the wine industry in the Niagara region where I live. I happen to live in St. Catharines, Ontario. It is somewhat appalling to realize that even though they might want to become competitive and even though they may become competitive within the marketplace, they do not have recourse in the event that dumping should take place here and they do not have recourse in the case where, in the United States of America, they are precluded from markets.

The story that Don Ziraldo passes on to us--and it is a true story--concerns his efforts, his foray, if you will, to enter the free trade arrangement with the spirit of enthusiastic entrepreneurship which, of course, Mr. Ziraldo has in great abundance. He took on a national distributor in the United States and since the national distributor knew the licensing chairman of the state of Pennsylvania, off they went to see that good fellow some three months ago. In Mr. Ziraldo's words, he was laughed out of his office.

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Notwithstanding Don's implication of the free trade arrangement that was coming down, the chairman advised him that states' rights have domain and he would decide what free trade would take place in the wine industry. It seemed rather incongruous to him that here this thing is being posted as a free trade arrangement when in fact it is not.

Somewhat interestingly, Mr. Conrad and I appeared on regional radio station CJRN with John Gilbert in that regard. It was rather remarkable. We spent the entire morning talking about the wine industry, talking about a number of factors that are not really economic.

The government boasted that there will be great economic benefits for Canada under this arrangement it has conjured up. In the Niagara region, three dimensions are going to be seriously affected, if not in fact completely removed from the scene.

First, culturally: 350,000 people down there have a great enjoyment for the grape and wine festival and for the whole trappings during the month of September and even into October, the embellishments of growing grapes, stomping grapes, drinking wine and having a great and joyous time. It is very much part of our culture. Different organizations within the area undertake entertaining events. The whole town, if not the whole region, gets grape and wine fever, although in some cases that is probably manifested in hangovers.

That will go, that will disappear, because the economic reality, a

second dimension, will dictate that in order for the wine people to remain competitive--if they are allowed to stay in business at all in Canada, because they may just be wiped out by the American constituency Mr. Mulroney has so graciously given the market to--they will have to buy their products from the US.

In the state of New York, it costs something in the order of US\$100 to US\$150 to grow a ton of grapes. In Canada, for whatever reasons there might be, it costs \$300 a ton to do the same thing. In the Napa Valley in California, a ton of grapes sells for US\$110. The same quality grapes in the Niagara region will sell for \$400, \$500 or \$600.

Then we come to the third dimension: What happens socially to the Niagara region? What happens when this economic decision has been made saying we will pay off the grape growers, because that seems to be an indication we hear coming through the system? We hear rumours that there is going to be an offer--these are only rumours I have garnered from talking to six executives within the wine industry--to pay people \$8,000 an acre to get out of the business. It is a total buyout. To some extent, it sort of says, "My gosh, my golly, if I were a grape grower and I were sitting there thinking about receiving \$8,000 an acre and keeping my land, that is a hell of a nice payoff. I think maybe I would try to play both ends against the middle." I do not know, but that is a fact that has been bandied around.

What about the cultural ramifications? What about the inequality of what has been brought on the wine industry? It cannot sell into the US, except as it is selling now. It cannot even sell into Europe because the Canadian government refuses to acknowledge that Canada is a grape-growing nation, which seems rather incongruous to me. We find that in the wine industry, which perhaps I have more concern with at this time, there are great inequalities. Again, we would support and endorse equal consideration for this industry.

The Acting Chairman: Thank you. I appreciate your patience.

Mr. Mackenzie: I want to put it on the record that I appreciate your presentation. I do not think anybody could either accuse us of being in your pocket or you of being in my party's pocket in any way, shape or form. Yet, I am pleased that your opposition, although it is to the specific deal and not to the principle of free trade, does recognize some of the Canadian concerns. I salute you for it.

I am wondering, first, if I can ask Annabel Cathrall if she is aware that we had a presentation here earlier today from the Consulting Engineers of Ontario, who presented what I thought was a rather strange brief, which outlined all of the things that were not accomplished in the deal but ended by saying professional engineers still support this free trade deal. Had you any knowledge of that, as an engineer?

Ms. Cathrall: No. I had no knowledge of that. Whether they have done so, I am not sure, but I am certainly not aware that the Canadian Council of Professional Engineers or the consulting engineers or the Association of Professional Engineers of Ontario has ever polled its members on what they feel.

Mr. Mackenzie: I am reminded by my colleague that it was the consulting engineers, and maybe there is a difference I do not understand.

Mr. Conrad: If I can jump in, just by accident, Mr. Blawatt is a

professional mechanical engineer, I am a professional chemical engineer, Mr. Pate is an instrumentation engineer and Mr. Seymour is a chemical engineer, and none of us was consulted on this, none of us was aware, none of us has been polled. There is no democracy.

Mr. Mackenzie: They were quite explicit, although as I say, it was a strange brief in that when you read it, it certainly led you to believe they were going to oppose it. Almost none of the safeguards they wanted was accomplished, but it still was very definitely pro the deal.

Ms. Cathrall: And they did not ask us.

Mr. Conrad: Ms. Cathrall, you have concerns about the environment that has been created by the government. I am wondering if it would be appropriate to--

Ms. Cathrall: The environmental question?

Mr. Conrad: The environmental question is a fair issue, but just the attitude that the government is creating out there.

Ms. Cathrall: Yes, I do. I am very concerned that what is being presented by a number of groups is a supportive environment for what the government is doing. But what the government is doing is done without a mandate from the membership of those groups, let alone from the Canadian people. They have no right to trade away this country without a mandate from all of us. I am very concerned that this is totally undemocratic.

Mr. Mackenzie: This is one of the things I was getting at and I have one other question in this particular line. I know that in some of the groups that have opposed this arrangement--and I speak now of another delegation we had here today, the labour movement--it has been the subject of much debate, not only at their conventions, the Ontario Federation of Labour, the Canadian Labour Congress, and it will be the major subject in the coming CLC, but in individual unions. My own union has had it on the floor at the Parkdale Works in Hamilton, so there has been some debate and some direction coming, which has resulted in the mobilizing of their forces.

I guess I am asking you why it is that, overwhelmingly, the major business groups--I can understand the chamber of commerce--but the various manufacturers' groups, the federation, which I am sure many of you belong to, the independent business groups have all appeared before us, almost universally--and I have to stress they are the major big business groups, I guess, with the exception of the Canadian Federation of Independent Business and so on--but all have appeared before us arguing, I think I can safely say, strongly in favour of this deal, if not with good arguments. In most cases, they do not tell us where the jobs are coming from, but the leap-of-faith argument certainly is used time and again, as it was by Mr. Macdonald.

What I am asking is, are you people renegades or is there not some protest developing within those organizations, or have they also made the move strictly on their own?. If you listen to the business groups that have been before us, that is the one community that has been consistently saying: "It is the naysayers. We really get labelled if we are in opposition to this, and we are supporting it."

Do you have any clout within these organizations, or do you know whether there has been any effort to mobilize a position contrary to what the umbrella groups are coming out with?

Mr. Conrad: We would answer that in two ways. One is that you should ask every group that appears before you three questions. The first question is, who made the decision on their public policy position? In all cases you will find that it is one person, or a small group, or a board of directors. The second question you should ask is, have they polled their members? In all cases you will find that they have not polled their members or even informed their members on the pluses or minuses of the Mulroney trade deal. The third question to ask them is, are you receiving funds, either directly or indirectly, from the government? In all cases you will find that the answer is yes.

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Mr. Mackenzie: Some of them are tapping Mr. McDermid's \$12-million slush fund that is for the direct organizing in opposition to this. I think those are taxpayers' dollars. I am talking about the member from Brampton.

Mr. Conrad: Mr. Crispo is receiving funds, but an organization I respect, the Consumers' Association of Canada, just to mention one, receives \$350,000 per year, basically, from the Department of Consumer and Corporate Affairs. That is at risk if they go out and oppose this, because the government has made noises about cutting off those funds. That is a good example. That can go organization by organization. They are also at risk in other things in terms of regional development grants, because one of the problems with this federal government is that it has politicized the public service.

Mr. Mackenzie: OK. I will not argue that they may not have gone to their members. I suspected that, although for some of them the position might be automatic. I am wondering if you have any idea whether you are a very minor group--you know, to use the words sometimes used, the rump group within the organization--or do you think you represent the view of a substantial number of independent business people and professional people?

Ms. Cathrall: May I speak to that? My impression is that we represent a much larger constituency of people than has yet been realized, largely because the opposition has not been co-ordinated up to this point; it has been rather scattered. The support for the free trade deal has been dominated mainly by the multinationals. They are well organized. They are much better organized than the opposition has been.

I talk to an awful lot of small business people and they are coming out with a comment I hear over and over again, "They say it is going to be good for the country, so I suppose we will have to go along with it, but it is hell for me." They are not really aware that there are thousands of them out there saying, "It is going to be hell for me." If they knew that, they would be in a little more doubt about whether it is good for the country. That is a sentiment I have heard a lot.

Mr. Conrad: Mr. Seymour, if I might, was a member of the Canadian Federation of Independent Business.

Mr. Seymour: As far as I know--and I have not been a member for a while--Bullock never surveyed the CFIB on the Mulroney trade deal.

This being the standing committee on finance and economic affairs, I believe it behooves you to address yourselves to the fact of the difference in exchange rate between the Canadian and the American dollar. Since this whole

debate began, the Canadian dollar has increased from 70 cents US to now about 80 cents.

If, as Mr. Mulroney and company say, this is going to be so great for Canada, jobs are going to be created and we are going to export more and more, naturally the Canadian dollar will automatically increase up to parity or even go above if it is going to be such a great deal. Then what happens to this 20 per cent to 30 per cent cushion we have been working with? Are we going to be competitive because our dollar will have increased by 20 per cent or 30 per cent?

Mr. Mackenzie: Can I suggest that the people who are making the representation before us also get a copy of the brief from the Ministry of Financial Institutions people who met before us, because the scenario they gave us was that there were moderate gains to be achieved. I think 2.5 per cent was the figure they used, and it was based on the fact that they thought this free trade deal would lead to a further drop of 3.5 per cent in the Canadian dollar over the next five years, which I found astounding. As you have pointed out, it is going exactly the opposite way.

They also admitted they did not do the figuring on the basis of an increase in the value, which would, they admitted, have given a different scenario. They said the gains were largely because there would be a further drop in the Canadian dollar. Do you find that reasonable at all?

Mr. Seymour: No. I think the Canadian dollar will increase with this.

Mr. Conrad: If you look at the spread in interest rates, since 1984 this government has widened the spread in interest rates between Canada and the United States. I suggest it is a deliberate policy influenced by Washington to reduce our trade surplus with the United States. The facts are there and you just cannot make the case that Canada is subject to more inflationary pressures than the US. I suggest to you, get the research, which is easily available, and look at the interest rates as they have widened.

Mr. Mackenzie: One of the things we might be doing is asking for a rehearing of the ministry people, because I have not heard anybody yet who begins to give credibility to the scenario they used in the model.

The Acting Chairman: There was a suggestion that at the conclusion of all the other hearings, we may come back to some of these.

Mr. Conrad: For your interest, we have appended two pages here on economics and economists which I commend to your reading.

Mr. Dietsch: I am not sure if I missed it in your earlier presentation: Did you allude to how your membership is made up and how many members you have in your particular organization, or is this a newly founded organization?

Mr. Conrad: We are newly founded. Because the existing associations, as has been discussed, were not democratic and were not polling their members, the board decided to form this business council and to go out into the marketplace and sell memberships, which we are doing on an active basis. To date, we have not only sold dozens of memberships but have received the endorsement of numbers of associations such as the computer industries association but also from the Canadian Toy Manufacturers' Association, from the Wine Council of Ontario. We have strong liaison with other associations such as the furniture manufacturers, the boat manufacturers and so on.

We are in an active startup mode, but our sense is, as we put on the covering page, that something like half of the Canadian businesses out there will end up supporting us.

Mr. Dietsch: Did I understand you correctly, Mr. Seymour, to say that you had not heard reference to the increase in the difference of the value of the dollar?

Mr. Seymour: Yes. I have not. I have read, I have watched TV programs, I have read in the paper. Not the opposition, not anyone, seems to have brought it up.

Mr. Dietsch: I can assure you that personally I have brought it up many times. I know it has been brought up. The Minister of Industry, Trade and Technology (Mr. Kwinter) has brought it up on a number of occasions. Certainly it is a serious concern we recognize, as you have brought out today. I thought that is what I heard and I wanted to make sure the record indicates that it has certainly been brought up a number of times. Because the media does not necessarily reproduce it, does not necessarily mean it has not been brought up.

Mr. Seymour: It was more in reference on this to the federal House, where I have heard neither of the opposition leaders or their Finance critics bringing this point up and I do not understand why.

Mr. Conrad: Higher interest rates to create the higher value of the dollar is a huge cost to the Canadian economy, to Canadian consumers, to Canadian businesses, to home owners. It is a higher interest rate of at least one percentage point across the board that is simply not necessary.

1700

Mr. Dietsch: I wholeheartedly concur with the effects you see that having in the market and I think it probably would be a good idea to get some rationale for the earlier presentations that have been before you. I would like to compliment your group in terms of putting forward a number of varying views. I found some of them most interesting, especially those dealing with the automotive and the wine industries which both happen to be sectors that I represent in St. Catharines-Brock, as Mr. Blawatt well knows. I certainly appreciate your efforts in coming before the committee to put those views forward.

The Acting Chairman (Mr. Kozyra): It is very timely for you to be substituting for another member of this committee.

Mr. Dietsch: Absolutely. You would almost think it was planned.

Mr. Haggerty: I want to thank the witnesses here today for their comments and I am sure they are appreciated. You shed some new light on the topic, anyway of how important this is to all Canadians. When I look around in this committee, I do not even see anybody from the press gallery here today. That shows the interest that is there. Something like this should be on television stations across Canada. When you sit back and look, you can say: At least we have an open discussion here in Ontario. There is public debate, but you do not find it in the other nine provinces. I am astonished that you informed us today that there are associations out there that are receiving public money. They have to support this because, if not, funding may be cut back.

I sit back and look at the conflict-of-interest rules that have been applied against members of the Legislature here and in other Legislatures. We have this type of conflict of interest out there. Really, the federal government is buying its publicity through handouts to certain clients who are supporting free trade.

You talked about the dollar exchange rates and the interest rates. I think one of the witnesses from the pulp and paper industry indicated here the other day before the committee that to move dollar exchange one percentage point could mean a loss or a gain of \$1 billion, a fantastic number. There are associations or special interest groups on the American side that are pushing to see that the Canadian dollar is at par with the United States. If we ever move to that level, yes, you can have the intervention of government on either side that can change the interest rates or even change the dollar to suit whatever is best suited to either country. I am glad, when I look at your document here, it says fair trade. I do not think there is a person here who is against fair trade. They talk about free trade. It has to be fair trade.

I think about meeting of the Consulting Engineers of Ontario today. They were very cautious in presenting their brief this morning because they are a group that is consulting and they provide their services offshore, maybe in the United States. It could be in Africa and other places like that. They have to be very cautious in this particular area because it creates jobs when you go off and do some engineering work in some other country. I think of Acres International in Niagara Falls. They are a large group of consultants, and they are doing an excellent job doing work in other parts of the world. There are a great number of people employed. So they have to move with some caution, but they did flag areas that they were concerned about.

One question raised was the possibility of a large number of engineers going to the United States to operate out of the United States so they can have free trade flow, a flow across the bridges, you might say. You can have a bridge there, but you have to have two ends to it. I suggest to you that they were very cautious in how they presented their views. We have had an independent viewpoint this afternoon from your group and we have listened to it.

Mr. Mackenzie: It is time for a question.

Mr. Haggerty: You want question do you, Bob?

Mr. Conrad: Thank you, Mr. Haggerty. I would like you to just--in our point form outline, there are several areas where we have free trade already and these are useful to examine. As Mr. Mackenzie I am sure, knows, there has been free trade in farm machinery since 1944 and--

Mr. Mackenzie: It has run a deficit almost every year since, too.

Mr. Conrad: Yes, and the deficit has increased in 20 or maybe 15 years from about \$200 million to something like \$1.5 billion in 1981. That is a very illustrative example--

Mr. Mackenzie: It is a very telling argument, as far as I am concerned.

Mr. Conrad: Of free trade. Now, never mind Macdonald's leap of faith. Here is free trade in farm machinery and we have consistently had a deficit. We have consistently lost jobs. Back in 1944, when we started the

free trade, we had a strong, viable, Canadian-owned and controlled manufacturing industry. In the interim, all that has happened is--you know the story. Massey-Ferguson put new plants in Kansas. We have de-industrialized in farm machinery. Our submission is that is a sector--and that study should be updated, incidentally. I would certainly suggest and recommend it. But that is going to happen. We are going to de-industrialize in Canada. Just as the Maritimes were de-industrialized when they came into the free trade agreement called Confederation.

So we can look at defence production sharing, where we have a deficit, or we can look at refined petroleum products, where the claim of the Mulroney government is that free trade would benefit consumers.

We have had free trade in refined petroleum products since July 1985. In fact, consumer prices, net of taxes, have increased, not decreased. The second point in the free trade in refined petroleum products is the major petroleum companies sell to American wholesalers and consumers at lower prices than they sell to Canadians. This is all factual data from the National Energy Board.

So Macdonald's leap of faith is really dreaming in Technicolor.

The Acting Chairman: Mr. McCague, you can be the last questioner.

Mr. McCague: Thank you. I have just a short point. I think you could have left the impression that the federal government was making grants to people who would support free trade. I presume what you are saying is that there are groups who do, on a yearly basis, receive a grant from governments and that they may be afraid to speak out in opposition to this deal. Is that what you are saying?

Mr. Conrad: No, what I was saying is that when each group appears before you, ask them about the direct and indirect funds they receive from government and then whether that is at risk.

Mr. McCague: But you are talking about the kinds of funds that the Association of Municipalities of Ontario may get from Ontario on a yearly basis, or--

Mr. Conrad: Whatever direct or indirect funds, Mr. McCague.

Mr. McCague: Yes, I think that is not a very good argument, however, it is an argument.

Mr. Conrad: Well, it is an argument. You can be sure that this group is not receiving funds from government.

Mr. McCague: That may well be why you made the point. Do you want some next year?

Mr. Mackenzie: I never anticipated that at all.

Mr. McCague: What is that?

The Acting Chairman: Are there any concluding comments?

Mr. Conrad: Mr. McCague, what I would commend to your reading, because I was thinking of you and Mr. Sterling in particular, is the historical

perspective that is in this write-up. It is just to tease your interest because, if you go back in history, you will find that the Conservative Party has a long and honourable history of opposing free trade and I suggest, for your reading, the election platform of Sir John A. Macdonald in 1891.

He won that election as did Sir Robert Borden in 1911. And Brian Mulroney, who opposed free trade in 1983 and won the 1984 election. So it is a winning platform, to oppose free trade.

The Acting Chairman: Mr. Blawatt, you had some concluding comments?

Mr. Blawatt: Just a brief commentary, à propos of the engineering group. A friend of mine has a rather large consulting practice in Mississauga. He has about 100 technical engineering people working for him. He has recently made submissions to the city of Buffalo. He has been complimented on his designs, he has been complimented on his price and he has been complimented on his technology and they said, "We want to do business with you." And he said: "That's great. Free trade, here we come." They said: "No, we want you to take on an American partner or open up a branch down here. We do not do business with Canadians."

So I do not know about free trade, but people have characteristic ways of doing business and the free trade arrangement is not going to change that at all.

Mr. Mackenzie: In the light of some of the testimony we have had before this committee. I might also suggest that given the number of engineers in your group, somebody might also be talking to your association about its almost unqualified support as a bottom line of the deal.

The Acting Chairman: Mr. Seymour, Mr. Conrad, Mr. Blawatt, Ms. Cathrall, on behalf of the committee, thank you very much. You presented a very poignant, grass-roots statement from business industry and I have enjoyed it. Thank you.

The committee adjourned at 5:11 p.m.

